Staff paper

Agenda reference: 1

Transition Implementation Group on IFRS S1 and IFRS S2

Date	**September 2024**
Topic	**Reporting on other questions submitted**
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Introduction

1. This paper summarises questions submitted to the Transition Implementation Group on IFRS S1 and IFRS S2 (TIG) that do not meet the submission criteria for questions submitted to the TIG. These submissions have been categorised in this paper as follows:

   (a) can be answered applying the words in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*;

   (b) do not relate to questions that arise when companies implement IFRS S1 and IFRS S2; or

   (c) are being considered through a process other than a TIG discussion (such as proposed educational material).

2. The criteria established for the TIG state that questions submitted to the TIG should meet the following criteria:

   (a) must be related to, or arise from, the implementation of IFRS S1 and/or IFRS S2;

   (b) may result in possible diversity in practice; and

   (c) are expected to be pervasive, that is, relevant to a wide group of stakeholders.

3. Submissions not summarised in this paper are those that are discussed in a separate agenda paper.

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(a) Questions that can be answered applying the words in IFRS S1 and IFRS S2

Sub. #	Topic	Question	Response
6	Reporting period alignment with financial reporting period	An entity currently reports emissions for the period October 1 – September 30 while their financials are reported for the period January 1 – December 31. Should the entity begin reporting emissions for the period January 1 – December 31 when transitioning to IFRS S1 and IFRS S2?	Paragraph 64 of IFRS S1 requires that an 'entity's sustainability-related financial disclosures shall cover the same reporting period as the related financial statements.' Paragraph 29(a)(i) of IFRS S2 requires an entity 'to disclose its absolute greenhouse gas emissions generated during the reporting period'. Therefore, an entity applying the ISSB Standards is required to disclose its greenhouse gas emissions for the reporting period that is aligned to the entity's related financial statements.[1]
7	Early application of ISSB Standards	If an entity decides to incorporate certain ISSB requirements in 2023 as a preliminary step towards full implementation by 2024, will this initial action be considered as the first year of implementation?	Paragraph 72 of IFRS S1 states that 'an entity shall not describe sustainability-related financial disclosures as complying with IFRS Sustainability Disclosure Standards unless they comply with all the requirements of IFRS Sustainability Disclosure Standards.' Therefore, an entity's first year of application of the ISSB Standards is the year in which the Standards are applied in a manner that complies with the Standards.
8	Financed emissions – insurance	Does paragraph B63 of IFRS S2 consciously omit reporting underwriting emissions for Insurers, contrary to the Partnership for Carbon Accounting Financials, or will IFRS S2 potentially include this requirement in future revisions?	The question related to the inclusion of specific financial activities as part of the requirement to measure and disclose Scope 3 GHG emissions has been addressed in a related question in Agenda Paper 4 *Scope 3 Category 15 GHG emissions related to financial activities and asset classes that are not explicitly referenced in IFRS S2* of the September 2024 TIG meeting.

[1] Paragraph B19 of IFRS S2 permits an entity, in specific circumstances and if specific conditions are met, to measure its greenhouse gas emissions in accordance with paragraph 29(a)(i) using information for reporting periods that are different from its own reporting period if that information is obtained from entities in its value chain with reporting periods that are different from the entity's reporting period.

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Sub. #	Topic	Question	Response
10	Location of reporting	Are sample reports available for preparing disclosure in compliance with IFRS S1 & S2? Are entities able to apply either of the two approaches below when preparing disclosure? • Separate Sections Approach: Preparers answer each item between the S1 paragraphs 26-53 (Indeed, in parallel to the "Proposed IFRS Taxonomy" document, it can be the first level subparagraphs of IFRS S1 and IFRS S2) • Table of IFRS References: Preparer prepare a narrative Sustainability Report and provide an annex as a table of IFRS references to the relevant sections of the Sustainability Report.	The IFRS Foundation has not published sample reports that are prepared in compliance with IFRS S1 and IFRS S2. Paragraphs 60–63 of IFRS S1 set out the requirements on the location of disclosures. Paragraph 60 requires an entity 'to provide disclosures required by IFRS Sustainability Disclosure Standards as part of its general purpose financial reports.' The following requirements are relevant in considering how to present the required information. Appendix D of IFRS S1 sets out the qualitative characteristics of useful sustainability-related financial information. Paragraph D26 of IFRS S1 states that an enhancing qualitative characteristic of useful sustainability-related financial information is understandability, specifically that 'sustainability-related financial information shall be clear and concise.' Paragraph D27 of IFRS S1 states that 'the clearest form a disclosure can take will depend on the nature of the information and might include tables, graphs or diagrams in addition to narrative text.' Paragraph D31 of IFRS S1 also states that 'the completeness, clarity and comparability of sustainability-related financial information all rely on information being presented as a coherent whole. For sustainability-related financial information to be coherent, it shall be presented in a way that explains the context and the connections between the related items of information.'

Sub. #	Topic	Question	Response
14	Scope of value chain for asset management entities	Are assets managed by an asset management entity, but not consolidated due to the absence of 'control' over the entity in which the assets are held, considered as part of the asset management entity's value chain?	Appendix A of IFRS S1 defines value chain as: 'The full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates. A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.' Paragraph B4 of IFRS S1 states that 'resources and relationships include, but are not limited to, the resources and relationships recognised as assets in the entity's financial statements.' Therefore, even if assets are not consolidated—that is, the assets are not recognised as assets in an entity's financial statements—the assets could still be resources and relationships to be considered as part of the entity's value chain.

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<table>
<tr><th>Sub. #</th><th>Topic</th><th>Question</th><th>Response</th></tr>
<tr><td>15</td><td>Scope 3 Category 15 greenhouse gas emissions: loan commitments</td><td>How should an entity that participates in commercial banking activities measure absolute gross financed emissions for undrawn loan commitments?</td><td>The relevant requirements to answer this question on the measurement and disclosure of Scope 3 greenhouse gas emissions are found in the following paragraphs of IFRS S2:
(a) paragraph 29(a)(i)(3) requires an entity ‘to disclose its absolute gross Scope 3 greenhouse gas emissions generated during the reporting period’;
(b) paragraph 29(a)(ii) requires an entity ‘to measure its greenhouse gas emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions’;
(c) paragraphs B38-B57 set out the requirements associated with the Scope 3 measurement framework;
(d) paragraph 29(a)(vi)(1) requires an entity ‘to disclose the categories included within the entity’s measure of Scope 3 greenhouse gas emissions, in accordance with the Scope 3 categories described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)’; and
(e) paragraph 29(a)(vi)(2) requires an entity ‘to disclose additional information about the entity’s Category 15 greenhouse gas emissions or those associated with its investments (financed emissions), if the entity’s activities include asset management, commercial banking or insurance’. As part of these disclosures, paragraphs B61(d), B62(d) and B63(d) require an entity to disclose the methodology the entity used to calculate its financed emissions.

Other than the requirements related to measurement as described above, IFRS S2 does not prescribe any specific methodology for an entity to use in calculating its financed emissions, including those related to undrawn loans. Paragraph BC125 of the Basis for Conclusions on IFRS S2 explains that:
‘The application guidance is intended to enhance consistent and comparable disclosure of financed emissions information while allowing for innovation. It is also intended to enable the market to converge on measurement methodologies for different asset classes as they emerge and gain acceptance, such as those developed by the Partnership for Carbon Accounting Financials. Although the requirements support the use of different measurement approaches, they also provide users of general purpose financial reports with the information necessary to understand an entity’s exposures and the approaches the entity has used to measure its financed emissions.’</td></tr>
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Sub. #	Topic	Question	Response
17	Disclosure of insurance associated emissions	Are insurance-associated emissions required to be disclosed, if material, under IFRS S2? If so, are companies required to align to the Partnership for Carbon Accounting Financials standard?	The first part of this question on what is required to be disclosed on insurance-associated emissions in accordance with IFRS S2 has been addressed in Agenda Paper 4 *Scope 3 Category 15 GHG emissions related to financial activities and asset classes that are not explicitly referenced in IFRS S2* of the September 2024 TIG meeting. The second question related to the use of the Partnership for Carbon Accounting Financials standard has been addressed in submission number 15 of this paper. The response to submission 15 addresses a question about the requirements related to measurement of greenhouse gas emissions.
18	Timing of disclosure	Is it mandatory for entities to publish a quarterly sustainability report if the entity is already publishing annual and quarterly financial statements?	The ISSB Standards do not mandate which entities would be required to provide quarterly sustainability reports. Specifically, paragraph 69 of IFRS S1 states that: 'this Standard does not mandate which entities would be required to provide interim sustainability-related financial disclosures, how frequently, or how soon after the end of an interim period. However, governments, securities regulators, stock exchanges and accountancy bodies may require entities whose debt or equity securities are publicly traded to publish interim general purpose financial reports.'

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Sub. #	Topic	Question	Response
21	Scope 3 GHG emissions	How should entities reconcile the optionality provided in the GHG Corporate Value Chain Standard with the requirements set out in IFRS S2 related to Scope 3 GHG emissions? Specifically, the GHG Protocol Corporate Value Chain Standard includes optionality about the GHG emissions within categories to be included in an entity's measure of its Scope 3 GHG emissions; it also sets out optionality in respect to aspects of measurement of Scope 3 GHG emissions such as when information could be excluded from measurement; how should an entity consider those 'optional' requirements when applying IFRS S2?	*Scope 1, Scope 2 and Scope 3 greenhouse gas emissions* IFRS S2 (paragraph 29(a)(ii)) requires an entity 'to measure its greenhouse gas emissions in accordance with the **Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (GHG Protocol Corporate Standard)'.**[2] An entity therefore uses the GHG Protocol Corporate Standard as its method of measuring greenhouse gas emissions and may elect to use either the equity share, operational or financial control approach in accordance with the GHG Protocol Corporate Standard. Paragraph B23 of IFRS S2 states that the GHG Protocol Corporate Standard is only applied to the extent it does not conflict with the requirements in IFRS S2. *Scope 3 greenhouse gas emissions* Paragraph 29(a)(i)(3) of IFRS S2 requires an entity to disclose its Scope 3 greenhouse gas emissions, and to use the Scope 3 measurement framework, as set out in paragraphs B38–B57 of IFRS S2, to prioritise inputs and assumptions when measuring Scope 3 GHG emissions. IFRS S2 also references **the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) (GHG Corporate Value Chain Standard).** This is referenced in the definition of Scope 3 greenhouse gas emissions, and in the requirements regarding the disclosure of Scope 3 greenhouse gas emissions categories, as mentioned in paragraphs 29(a)(vi)(1) and B32 of IFRS S2. Appendix A of IFRS S2 defines scope 3 greenhouse gas emissions as: 'Indirect greenhouse gas emissions (not included in Scope 2 greenhouse gas emissions) that occur in the value chain of an entity, including both upstream and downstream emissions. Scope 3 greenhouse gas emissions include the Scope 3 categories in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).'

[2] An entity measures its greenhouse gas emissions in accordance with the GHG Protocol Corporate Standard unless the entity is required by a jurisdictional authority or an exchange on which it is listed to use a different method for measuring its greenhouse gas emissions.

Sub. #	Topic	Question	Response
			Therefore, IFRS S2 requires that an entity consider all 15 categories of Scope 3 greenhouse gas emissions, as described in the GHG Protocol Corporate Value Chain Standard and determine which are relevant to an entity's value chain—and if relevant include those categories in an entity's measure of Scope 3 greenhouse gas emissions. The GHG Protocol Corporate Value Chain Standard is not referenced in relation to the *measurement* of Scope 3 greenhouse gas emissions. Furthermore, the optional provisions are also not used to determine what is included in the measure of the entity's Scope 3 greenhouse gas emissions—IFRS S2 requires that the determination of what Scope 3 greenhouse gas emissions to include is based on relevance to an entity's value chain and materiality as required by ISSB Standards. In summary, an entity is required to consider all 15 categories of Scope 3 greenhouse gas emissions, as described in the GHG Protocol Corporate Value Chain Standard and disclose which of the categories are included in an entity's measure of Scope 3 greenhouse gas emissions. In addition, an entity is required to apply the specific requirements in IFRS S2 applicable to provide disclosures about the measurement approach, inputs and assumptions used in the measurement of Scope 3 greenhouse gas emissions in accordance with paragraphs B55–B57 of IFRS S2.

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(b) Questions that do not relate to questions that arise when companies implement IFRS S1 and IFRS S2

Sub. #	Topic	Question	Response
4	Capital markets authorities supporting implementation	How can capital markets authorities support implementation of the IFRS Sustainability Disclosure Standards in capital markets?	Questions related to the role of capital market authorities in supporting implementation of the IFRS Sustainability Disclosure Standards are outside the remit of the TIG, as the TIG discusses questions that arise when entities implement IFRS S1 and IFRS S2.
5	Licensing for software providers	How can licensing for the S1 and S2 frameworks be expedited to enable integration into the software already widely used by many ESG reporters?	Questions related to the licensing of IFRS S1 and IFRS S2 are outside the remit of the TIG, as the TIG discusses questions that arise when entities implement IFRS S1 and IFRS S2.
9	Adapting requirements for regional considerations	How can disclosure requirements be adapted to reflect specific regional characteristics, given that companies operate in distinct environments with unique sustainability-related challenges and opportunities?	This question does not meet the criteria for TIG discussion as it does not relate to a question that arises when companies implement IFRS S1 and IFRS S2. As discussed in Agenda Paper 1 of the March 2024 TIG meeting, IFRS S1 and IFRS S2 are intentionally designed to be capable of application for a range of companies, activities and facts and circumstances. This includes companies operating in different regions.

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(c) Questions that are being considered through a process other than a TIG discussion

Sub. #	Topic	Question	Response
20	Value Chain	Is there any practical guidance on how to conduct a value chain assessment, which is a core requirement in IFRS S1 and IFRS S2?	The staff are currently developing educational material related to this topic.