Staff paper

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Transition Implementation Group on IFRS S1 and IFRS S2

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Topic	**Scope 3 Category 15 GHG emissions related to financial activities and asset classes that are not explicitly referenced in IFRS S2**
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Introduction

1. We have received a submission about how an entity applies the requirements in IFRS S2 *Climate-related Disclosures* related to Scope 3 Category 15 greenhouse gas (GHG) emissions, specifically in circumstances in which those GHG emissions relate to financial activities and asset classes that are not explicitly referenced in IFRS S2.

2. The objective of this paper is to provide background and analysis to support discussion by the Transition Implementation Group on IFRS S1 and IFRS S2 (the TIG).

3. The TIG provides a public forum for the discussion of implementation questions related to the IFRS Sustainability Disclosure Standards and to provide information for the ISSB to determine what, if any, action will be needed to address those questions.

4. This paper:

   (a) sets out the relevant requirements in IFRS S2;

   (b) summarises the implementation question raised in the submission;

   (c) outlines the staff's analysis related to the implementation question; and

   (d) asks the members of the TIG for their views on the question raised.

Relevant requirements

5. The following paragraphs set out the main requirements in IFRS S2 and the Basis for Conclusions on IFRS S2 related to the implementation question. **Appendix A** of this paper includes the excerpts from the Basis for Conclusions on IFRS S2 that have been referenced in this paper.

6. Paragraph 29 (a) of IFRS S2 sets out the requirements for disclosing Scope 1, Scope 2, and Scope 3 GHG emissions:

> 29 An entity shall disclose information relevant to the cross-industry metric categories of:
>
> (a) greenhouse gases—the entity shall:
>
> (i) disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of CO2 equivalent (see paragraphs B19–B22), classified as:
>
> (1) Scope 1 greenhouse gas emissions;
>
> (2) Scope 2 greenhouse gas emissions; and
>
> (3) Scope 3 greenhouse gas emissions;
>
> (ii) 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 (see paragraphs B23–B25);
>
> (iii) disclose the approach it uses to measure its greenhouse gas emissions (see paragraphs B26–B29) including:

(1) the measurement approach, inputs and assumptions the entity uses to measure its greenhouse gas emissions;

(2) the reason why the entity has chosen the measurement approach, inputs and assumptions it uses to measure its greenhouse gas emissions; and

(3) any changes the entity made to the measurement approach, inputs and assumptions during the reporting period and the reasons for those changes; …

(vi) for Scope 3 greenhouse gas emissions disclosed in accordance with paragraph 29(a)(i)(3), and with reference to paragraphs B32–B57, disclose:

(1) 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

(2) 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 (see paragraphs B58–B63).

7. Paragraph B32 of IFRS S2 specifies that an entity must consider all 15 categories of Scope 3 GHG emissions as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) (GHG Protocol Corporate Value Chain Standard).

> B32 In accordance with paragraph 29(a)(vi), an entity shall disclose information about its Scope 3 greenhouse gas emissions to enable users of general purpose financial reports to understand the source of these emissions. **The entity shall consider its entire value chain (upstream and downstream) and shall consider all 15 categories of Scope 3 greenhouse gas emissions, as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).** In accordance with paragraph 29(a)(vi), the entity shall disclose which of these categories are included in its Scope 3 greenhouse gas emissions disclosures **[emphasis added].**

8. Paragraphs B38–B54 of IFRS S2 set out the requirements related to the Scope 3 measurement framework. Among other things, the Scope 3 measurement framework requires that an entity measure its Scope 3 GHG emissions using a measurement approach, inputs and assumptions that result in faithful representation of Scope 3 GHG emissions, and requires the use of all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort:

> B38 An entity's measurement of Scope 3 greenhouse gas emissions is likely to include the use of estimation rather than solely comprising direct measurement. In measuring Scope 3 greenhouse gas emissions an entity shall use a measurement approach, inputs and assumptions that result in a faithful representation of this measurement. The measurement framework described in paragraphs B40–B54 provides guidance for an entity to use in preparing its Scope 3 greenhouse gas emissions disclosures.

> B39 An entity is required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort when the entity selects the

> measurement approach, inputs and assumptions it uses in measuring Scope 3 greenhouse gas emissions.

9. Paragraphs B58–B60 of IFRS S2 set out requirements for entities that participate in one or more of the following financial activities: asset management, commercial banking and insurance. Specifically, these requirements relate to the provision of information about Scope 3 Category 15 GHG emissions or those associated with its investments which is also known as 'financed emissions':

> B58 Entities participating in financial activities face risks and opportunities related to the greenhouse gas emissions associated with those activities. Counterparties, borrowers or investees with higher greenhouse gas emissions might be susceptible to risks associated with technological changes, shifts in supply and demand and policy change, which in turn can affect the financial institution that is providing financial services to these entities. These risks and opportunities can arise in the form of credit risk, market risk, reputational risk and other financial and operational risks. For example, credit risk might arise in relation to financing clients affected by increasingly stringent carbon taxes, fuel efficiency regulations or other policies; credit risk might also arise through technological shifts. Reputational risk might arise from financing fossil-fuel projects. Entities participating in financial activities, including commercial and investment banks, asset managers and insurance entities, are increasingly monitoring and managing such risks by measuring their financed emissions. This measurement serves as an indicator of an entity's exposure to climate-related risks and opportunities and how the entity might need to adapt its financial activities over time.

> B59 Paragraph 29 (a)(i)(3) requires an entity to disclose its absolute gross Scope 3 greenhouse gas emissions generated during the reporting period, including upstream and downstream

> emissions. An entity that participates in one or more of the following financial activities is required to disclose additional and specific information about its Category 15 emissions or those emissions associated with its investments which is also known as 'financed emissions':
>
> (a) asset management (see paragraph B61);
>
> (b) commercial banking (see paragraph B62); and
>
> (c) insurance (see paragraph B63).
>
> B60 An entity shall apply the requirements for disclosing greenhouse gas emissions in accordance with paragraph 29(a) when disclosing information about its financed emissions.

10. Paragraphs B62–B63 of IFRS S2 require entities that participate in *commercial banking activities* and the *insurance industry* to disaggregate absolute gross financed emissions for each industry by asset class, and requires disclosure of the methodology used to calculate financed emissions:

> B62 …disclose…
>
> (a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for each industry by asset class. When disaggregating by…
>
> (ii) asset class—the disclosure shall include loans, project finance, bonds, equity investments and undrawn loan commitments. If the entity calculates and discloses financed emissions for other asset classes, it shall include an explanation of why the inclusion of those additional asset classes provides relevant information to users of general purpose financial reports…

(d) the methodology the entity used to calculate its financed emissions, including the method of allocation the entity used to attribute its share of emissions in relation to the size of its gross exposure.

B63 …disclose…

(a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for each industry by asset class. When disaggregating by…

(ii) asset class—the disclosure shall include loans, bonds and equity investments, as well as undrawn loan commitments. If the entity calculates and discloses financed emissions for other asset classes, it shall include an explanation of why the inclusion of those additional asset classes provides relevant information to users of general purpose financial reports…

(d) the methodology the entity used to calculate its financed emissions, including the method of allocation the entity used to attribute its share of emissions in relation to the size of its gross exposure.

11. Paragraph B57 of IFRS S2 explains that, in those rare cases when an entity determines it is impracticable to estimate its Scope 3 GHG emissions, an entity is required to disclose how it is managing its Scope 3 GHG emissions:

B57 This Standard includes the presumption that Scope 3 greenhouse gas emissions can be estimated reliably using secondary data and industry averages. In those rare cases when an entity determines it is impracticable to estimate its Scope 3 greenhouse gas emissions, the entity shall disclose how it is managing its Scope 3 greenhouse gas emissions. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

12. The Basis for Conclusions on IFRS S2 accompanies IFRS S2 but is not part of IFRS S2. It provides useful context but does not establish requirements. The Basis for Conclusions on IFRS S2 summarises the considerations of the ISSB in developing IFRS S2.

13. Paragraphs BC127 and BC129 of the Basis for Conclusions on IFRS S2 provide additional context for the ISSB's decisions related to disclosure requirements on financed emissions:

> BC127 The ISSB decided to confirm and clarify the proposed requirements for an entity engaged in financial activities associated with commercial banking or insurance to disclose information about its undrawn loan commitments. That is, the entity would be required to disclose separately its financial exposures and its emissions related to those undrawn loan commitments. The ISSB also decided to confirm and clarify the proposed requirement for an entity engaged in financial activities associated with commercial banking to provide disclosures on a gross basis. That is, the entity would be required to provide these disclosures without considering risk mitigation, which the ISSB noted would not affect the greenhouse gas emissions associated with a loan. Additionally, for all financial activities, the ISSB decided to remove the proposal for an entity to include derivatives when calculating its financed emissions, citing the lack of an established methodology for the asset class.

> BC129 The ISSB confirmed that IFRS S2 requires financed emissions disclosure only for insurance-related financial activities associated with an insurer's assets. In other words, IFRS S2 does not require disclosure of the 'associated emissions' of

underwriting portfolios in the insurance and reinsurance industries. Similarly, the ISSB decided not to proceed with the proposed requirements for an entity engaged in financial activities associated with investment banking to disclose information about its 'facilitated emissions', citing the lack of established methodology in relation to such emissions.

Implementation question received

14. The submission asks whether the following asset class and financial activities are required to be included in an entity's disclosure of its Scope 3 Category 15 GHG emissions, noting that these are not explicitly referenced in IFRS S2:

    (a) asset class: derivatives.

    (b) financial activities: underwriting activities in the insurance and reinsurance industries and investment bank activities in the investment banking industry.

15. As part of explaining the rationale for the submitted question, the submission references the Basis for Conclusions on IFRS S2, and notes the ISSB's decisions:

    (a) not to proceed with the proposal for an entity to include derivatives when calculating its financed emissions (paragraph BC127 of the Basis for Conclusions on IFRS S2);

    (b) not to require disclosure of the 'associated emissions' of underwriting portfolios in the insurance and reinsurance industries (paragraph BC129 of the Basis for Conclusions on IFRS S2); and

    (c) not to proceed with the proposed requirements for an entity engaged in financial activities associated with investment banking to disclose information about its 'facilitated emissions' (paragraph BC129 of the Basis for Conclusions on IFRS S2).

16. Therefore, the submission questions whether the decision by the ISSB to not include explicit references to financed emissions related to derivatives, associated emissions and facilitated emissions in IFRS S2 meant that these were not in scope of an entity's disclosure of its Scope 3 Category 15 GHG emissions (in accordance with paragraph 29(a)(i)(3)) of IFRS S2, even if material.

Staff analysis

17. This section explains the staff analysis, in which the staff consider:

    (a) the requirements related to financed emissions;

    (b) the context provided by the Basis for Conclusions on IFRS S2;

    (c) the applicability of 'impracticability'; and

    (d) other contextual information.

The requirements related to financed emissions

18. IFRS S2 requires that an entity—regardless of its activities or asset classes—disclose its Scope 3 GHG emissions. Furthermore, an entity that participates in financial activities associated with asset management, commercial banking or insurance is required to disclose additional information about its Scope 3 Category 15 GHG emissions.

19. The requirement in paragraph 29(a)(i)(3) of IFRS S2 to disclose Scope 3 GHG emissions is complemented by paragraph B32 that requires all categories of Scope 3 GHG emissions to be considered by a reporting entity. Said differently, this requirement applies to all entities and does not exclude particular activities, nor any particular asset classes in determining the Scope 3 GHG emissions that an entity must consider in meeting the requirements in IFRS S2. This disclosure requirement is subject only to materiality (as is the case for all disclosures when applying ISSB Standards).

20. The requirements set out in paragraph 29(a)(vi)(2) of IFRS S2 to disclose *additional* information about Scope 3 GHG emissions relates to only those entities engaged in specific activities. The inclusion or exclusion of activities or asset classes in these requirements has no bearing on the requirement to disclose Scope 3 GHG emissions for all entities as set out by paragraph 29(a)(i)(3) of IFRS S2. Therefore, when considering the specific activities and/or asset classes for which GHG emissions information is required to be disclosed, entities are required to apply the requirements in paragraph 29(a)(i)(3) of IFRS S2, which requires disclosure of Scope 3 GHG emissions, as defined in Appendix A of IFRS S2.

21. IFRS S2 requires that an entity consider all 15 categories of Scope 3 GHG 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 GHG emissions. In relation to Category 15, the description of investments and services provided on pages 51-54 of the GHG Protocol Corporate Value Chain Standard covers a broad range of investments and financial activities and includes GHG emissions associated with the asset class and financial activities included in the submission question. For the avoidance of doubt, the GHG Protocol Corporate Value Chain Standard is not required to be used by an entity to measure its Scope 3 GHG emissions. Furthermore, the optional provisions are also not used to determine what is included in the measure of the entity's Scope 3 GHG emissions—the determination of what Scope 3 GHG emissions to include is based on relevance to an entity's value chain and materiality as required by ISSB Standards.[1]

22. Paragraphs B61–B63 of IFRS S2 set out the additional disclosure requirements related to financed emissions for those entities that participate in asset management, commercial banking or insurance activities. Specifically, among these requirements is the requirement for entities that participate in commercial banking or insurance activities to disaggregate absolute gross financed emissions by Scope 1, Scope 2 and

[1] Refer to AP1 *Reporting on other questions submitted*, September 2024, for more information about how an entity uses the GHG Protocol Corporate Value Chain Standard when applying the requirements in IFRS S2.

Scope 3 GHG emissions for each industry by asset class. The requirements specify the asset classes to disaggregate by, and 'include' loans, project finance, bonds, equity investments, and undrawn loan commitments. The use of the term 'include' means that an entity should not read the list of asset classes as an exhaustive list of assets that should be included in the required disaggregation of financed emissions.

23. Further, if an entity calculates and discloses financed emissions for other asset classes—that is other than loans, project finance, bonds, equity investments, and undrawn loan commitments—IFRS S2 requires provision of an 'explanation of why the inclusion of those additional asset classes provides relevant information to users of general purpose financial reports'. This inherently acknowledges that an entity's Scope 3 Category 15 GHG emissions could include asset classes that are not explicitly referenced in IFRS S2.

24. Thus, in the staff's view IFRS S2:

    (a) requires entities to disclose Scope 3 Category 15 GHG emissions associated with financial activities or asset classes, including those not referenced in IFRS S2, if material; and

    (b) entities that participate in asset management, commercial banking, or insurance activities are required to disclose additional information about Scope 3 Category 15 GHG emissions associated with asset classes not explicitly referenced in IFRS S2, if material.

The context provided by the Basis for Conclusions on IFRS S2

25. The staff believes that one of the reasons that questions have been raised about the inclusion of particular financed and facilitated emissions amounts in the measurement of Scope 3 GHG emissions when applying IFRS S2 is a result of proposals in the Exposure Draft on IFRS S2. The Exposure Draft on IFRS S2 proposed including specific disclosures for entities participating in commercial banking or insurance activities in relation to financed emissions associated with derivatives and in relation

to facilitated emissions associated with investment banking activities. However, IFRS S2 does not explicitly include these disclosures requirements.

26. Again, the Basis for Conclusions on IFRS S2 accompanies, but is not part of, IFRS S2. It summarises the considerations of the ISSB and explains the rationale for the decisions the ISSB reached in developing the Standard. This context can be useful to an entity when it applies the requirements in IFRS S2. For the avoidance of doubt, the Basis for Conclusions provides context and can be useful to understand the requirements in the Standard but the Basis for Conclusions does not in itself set out requirements. This means, that the Basis for Conclusions cannot override requirements in the Standard and it cannot introduce requirements that are not otherwise set out in the Standard.

27. Paragraphs BC127 and BC129 of the Basis for Conclusions on IFRS S2 explains the rationale for the decisions the ISSB reached in developing requirements related to financed emissions and why specific requirements proposed in the Exposure Draft on IFRS S2 were not included in the final version of IFRS S2, including proposed disclosures related to:

    (a) associated emissions of underwriting portfolios in the insurance and reinsurance industries;

    (b) facilitated emissions associated with investment banking financial activities; and

    (c) financed emissions associated with derivatives.

28. In explaining the rationale for deciding not to require these disclosures related to facilitated emissions and financed emissions associated with derivatives, the Basis for Conclusions cites the lack of established measurement methodology.

29. Despite the wording in the Basis for Conclusions, which note the ISSB's decision not to proceed with requiring calculation of financed emissions associated with derivatives (BC127), not to require disclosure of associated emissions for insurance or reinsurance, nor to require disclosures about facilitated emissions (BC129) the staff

note that the Basis for Conclusions cannot override the requirements in IFRS S2, including the requirement in paragraph 29(a)(i) of IFRS S2 to disclose Scope 3 GHG emissions with no explicit omissions from Category 15.

The applicability of impracticability

30. Paragraph B57 of IFRS S2 states that in rare cases in which an entity determines it is *impracticable* to estimate its Scope 3 GHG emissions, an entity is required to disclose how it is managing its Scope 3 GHG emissions. A requirement is impracticable for an entity (consistent with the use of the term in IFRS Accounting Standards), when the entity cannot apply it after making every reasonable effort to do so. The staff note that, there may be cases in which calculating specific Scope 3 Category 15 GHG emissions information might be impracticable, for example, in relation to some complex derivatives. However, it is noted that in practice impracticability is regarded as being a 'high hurdle' and the application of the term in ISSB Standards was by design intended to be aligned with application in relation to IFRS Accounting Standards.

Other contextual information

31. As noted in paragraph BC112 of the Basis for Conclusions on IFRS S2, calculating GHG emissions, including Scope 3 GHG emissions, is a process that involves data and methodological challenges and is still being refined. This includes as it relates to measuring Scope 3 GHG emissions arising from activities not under the direct ownership or control of an entity. Therefore, entities might face challenges related to data availability, quality and costs associated with data collection.

32. Additionally, for Scope 3 Category 15 GHG emissions, there might be complexities due to the nature of some financial activities and the complicated characteristics of some asset classes such as derivatives. These complexities may pose challenges for entities in determining how to attribute the emissions from these financial activities and/or asset classes and in their measurement.

33. These challenges are generally recognised by market participants and are being addressed over time. For example, since the publication of IFRS S2, the Partnership for Carbon Accounting Financials (PCAF) [2] has released its first version of the Facilitated Emissions Standard.[3] It provides detailed methodological guidance for the measurement of GHG emissions associated with capital market transactions. Additionally, PCAF has also released the first version of the Insurance-Associated Emissions Standard.[3] It provides detailed methodological guidance for the measurement of GHG emissions associated with two insurance segments. Furthermore, PCAF has announced areas for standard development across several areas including facilitated emissions associated with derivatives.[4]

Staff view

34. In the staff view, based on the analysis in paragraphs 17–33, there is no explicit limitation on the types of financial activities or asset classes that must be included in the measurement of an entity's Scope 3 GHG emissions.[5] This means that emissions associated with the following financial activities and assets classes are included in the requirements to disclose Scope 3 GHG emissions in accordance with IFRS S2:

    (a) associated emissions of underwriting portfolios in the insurance and reinsurance industries;

    (b) facilitated emissions associated with investment banking financial activities; and

    (c) financed emissions associated with derivatives.

35. However, if an entity determines it is impracticable to do so, it is not required to provide such disclosure.

[2] PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess the GHG emissions associated with their loans and investments. Further information can be found through the following link About PCAF (carbonaccountingfinancials.com).

[3] The Global GHG Accounting and Reporting Standard for the Financial Industry (carbonaccountingfinancials.com)

[4] PCAF announces areas for standard development in 2024 (carbonaccountingfinancials.com)

[5] Subject only to the overarching requirement that all information required to be provided using ISSB Standards is subject to materiality.

36. The staff note that ISSB Standards only require the disclosure of material information.

Staff next steps

37. As there is no explicit exclusion of any particular financial activities or asset classes from the requirement in IFRS S2 to disclose Scope 3 Category 15 GHG emissions, the staff view is that an entity is required to disclose such information if material. However, the staff also note that the Basis for Conclusions arguably indicates that the ISSB did not intend to require such disclosures in IFRS S2.

38. The staff will be informed by the discussion amongst TIG members, and based on this feedback, the staff will consider bringing this matter to the ISSB's attention to determine whether any action is warranted.

Question for the TIG

39. The staff present the following question for the TIG members.

Question for TIG members
1. What are your views on the question and analysis presented?

Appendix A

A1. Paragraph BC112 of the Basis for Conclusion on IFRS S2 notes that calculating Scope 3 GHG emissions is a process that involves data and methodological challenges:

> BC112 Many preparers who responded to the Exposure Draft agreed with the proposed disclosure requirement for absolute gross Scope 3 greenhouse gas emissions. However, these preparers also expressed concerns about particular aspects of the requirements, including challenges related to the availability of data, use of estimates, calculation methodologies and other sources of uncertainty. Although greenhouse gas emissions, including Scope 3 greenhouse gas emissions, are well defined in the greenhouse gas Protocol Corporate Standard, calculating Scope 3 greenhouse gas emissions is a process that involves data and methodological challenges and is still being refined. Scope 3 greenhouse gas emissions include those arising from activities not under the direct ownership or control of an entity. Therefore, the entity might face challenges related to data availability and quality as well as the associated cost of data collection. These challenges contribute to uncertainty in the measurement of Scope 3 greenhouse gas emissions. Some respondents argued that because of such challenges, IFRS S2 should not require the disclosure of Scope 3 greenhouse gas emissions.

A2. Paragraph BC122 of the Basis for Conclusion explains that IFRS S2 requires entities that engage in specific financial activities to disclose additional and specific information about financed emissions as an extension of the requirement in paragraph 29(a)(vi) of IFRS S2:

> BC122 Financial organisations, including commercial banks, asset managers and insurance companies, are increasingly being asked to disclose the extent of their investment and lending activity associated with sustainability-related risks and opportunities. In relation

to climate-related risks and opportunities, such disclosure involves an entity disclosing the greenhouse gas emissions associated with its financial activities. The term 'financed emissions' is often used to refer to the absolute greenhouse gas emissions that banks and investors finance through their loans and investments. IFRS S2 requires entities that engage in such activities to disclose information about financed emissions as an extension of the requirement in paragraph 29(a)(vi) of IFRS S2 for an entity to disclose its Scope 3 greenhouse gas emissions, including Category 15 (investments).

A3. Paragraph BC125 of the Basis for Conclusion on IFRS S2 explains the rationale related to the decision to require additional disclosures related to specific financed emissions:

> BC125 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.