

ISSB meeting

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Project	Supporting Implementation of IFRS S1 and IFRS S2
Topic	Specific aspects of the potential amendments to IFRS S2
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This paper has been prepared for discussion at a public meeting of the International Sustainability Standards Board ('ISSB' or 'Board'). It does not purport to represent the views of any individual member of the International Sustainability Standards Board or staff. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards.

Purpose

1. The purpose of this paper is to set out the staff analysis and recommendations for the International Sustainability Standards Board (ISSB) on *how* potential amendments could be made to effectively respond to application challenges arising from the implementation of IFRS S2 *Climate-related Disclosures*.
2. This paper provides the staff analysis and recommendations on potential amendments to IFRS S2 related to the:
 - (a) disclosure of Scope 3 Category 15 greenhouse gas (GHG) emissions related to derivatives and specific financial activities;
 - (b) applicability of the jurisdictional relief in IFRS S2 for measurement of GHG emissions as it relates to the:
 - i. use of global warming potential (GWP) values from the latest Intergovernmental Panel on Climate Change (IPCC) assessment when a jurisdiction requires the use of different GWP values; and
 - ii. method for measuring GHG emissions, to part of a reporting entity.

3. At this meeting, the ISSB will be asked to vote on the staff recommendations for each of these potential amendments to IFRS S2.

Structure of the paper

4. This paper is structured as follows:
 - (a) Background;
 - (b) Summary of the staff recommendations;
 - (c) Staff analysis and recommendations on the potential amendments;
 - (d) Questions for the ISSB; and
 - (e) Appendix A—Staff analysis

Background

5. Agenda Paper 9D *Implementation challenges and concerns related to IFRS S2* of the November 2024 ISSB meeting outlined some application challenges arising from implementation to the ISSB for further consideration. These application challenges were discussed at the September 2024 Transition Implementation Group on IFRS S1 and IFRS S2 (TIG) meeting. The issues covered in the paper were:
 - (a) disclosure of Scope 3 Category 15 GHG emissions related to derivatives and specific financial activities (see [Agenda Paper 4 of the September 2024 TIG meeting](#));
 - (b) measurement of GHG emissions as it relates to the:
 - i. use of GWP values from the latest IPCC assessment when a jurisdiction requires the use of different GWP values (see [Agenda Paper 5 of the September 2024 TIG meeting](#));¹ and

¹ IFRS S2 requires entities to convert the seven constituent GHGs into a CO₂ equivalent value using GWP values based on a 100-year time horizon, from the latest IPCC assessment available at the reporting date. This paper refers to these GWP values as 'GWP values from the latest IPCC assessment'.

- ii. application of the jurisdictional relief in IFRS S2, related to the method for measuring GHG emissions, to part of a reporting entity (see [Agenda Paper 3 of the September 2024 TIG meeting](#)).

Summary of the staff recommendations

- 6. The staff recommends amending IFRS S2 to:
 - (a) permit an entity to exclude from the measurement and disclosure of Scope 3 Category 15 GHG emissions, emissions associated with derivatives and specific financial activities. Specifically, this relief would:
 - i. be a removal of the requirement, as opposed to a transition relief of a finite duration;
 - ii. be scoped by limiting the measurement and disclosure requirements for Scope 3 Category 15 GHG emissions to ‘financed emissions’, as defined in IFRS S2, which expressly links the GHG emissions measurement to loans and investments, and specifying that this definition excludes derivatives for the purposes of applying the relief; and
 - iii. require that an entity disclose information about the extent to which specific financial activities and derivatives are excluded from its measurement of Scope 3 Category 15 GHG emissions as a result of applying the relief.
 - (b) permit an entity to use GWP values that are required by a jurisdictional authority or exchange on which the entity is listed, instead of using the GWP values from the latest IPCC assessment; and
 - (c) clarify that the jurisdictional relief is applicable if an entity is required by a jurisdictional authority or exchange on which it is listed to use a method other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (GHG Protocol Corporate Standard) to measure GHG emissions, in whole or in part.

Staff analysis and recommendations on the potential amendments

Scope 3 Category 15 GHG emissions related to derivatives and specific financial activities

7. The staff recommend that the ISSB amend IFRS S2 to permit entities to exclude the following Scope 3 Category 15 GHG emissions from the emissions required to be disclosed in accordance with IFRS S2 paragraph 29(a)(i)(3). These exclusions would be GHG emissions associated with:
 - (a) derivatives;
 - (b) investment banking activities in the investment banking industry (referred to in this paper as facilitated emissions); and
 - (c) underwriting activities in the insurance and reinsurance industry (referred to in this paper as insurance-associated emissions).

8. In considering whether and how to amend IFRS S2, the staff have conducted additional research on the following aspects of the potential amendment:
 - (a) whether the relief would have a finite duration, that is whether it would be a transition relief versus removal of the requirement;
 - (b) the scope of the relief; and
 - (c) whether to require additional disclosure about the information subject to the relief, and what information to require.

Transition relief versus removal of the requirement

9. In defining the potential amendment, the staff noted that it could be framed as a transition relief of a finite duration or IFRS S2 could be amended to remove the requirement to provide this information.

10. If the amendment is a transition relief, the requirement to disclose information for derivatives, facilitated emission and insurance-associated emissions as part of Scope 3 Category 15 GHG emissions will remain in IFRS S2 but entities will be allowed more

time to apply the requirement. The benefit of a transition relief is that it provides certainty to stakeholders as to when the information will be required to be disclosed at a future date without the need to amend IFRS S2 again. Additionally, it might also support the continued momentum in evolution of GHG measurement methodologies as entities will know that such information would be required at a particular future date. However, in order to propose a transition relief, the staff think that the ISSB should have appropriate evidence to support the defined duration of relief.

11. If the ISSB decides to simply remove the requirement to disclose these particular Scope 3 GHG emissions, the staff notes that this approach would be consistent with the ISSB's initial decisions to exclude derivatives, facilitated emissions and insurance-associated from the Scope 3 Category 15 additional information requirements in paragraphs B58-B63 of IFRS S2. IFRS S2 does not require this additional information to be provided for these Scope 3 Category 15 GHG emissions.
12. If the ISSB decides to remove the requirement, the staff also notes that the ISSB can still reconsider introducing the Scope 3 Category 15 requirements for derivatives, facilitated emissions and insurance-associated emissions at a later date. Examples of points in time when the ISSB might reconsider this requirement include the following circumstances:
 - (a) revisions to the GHG Protocol Corporate Standard, should there be changes that might impact Scope 3 Category 15 GHG emissions;^{2,3}
 - (b) further evolution of GHG emissions measurement methodologies for derivatives, facilitated emissions and insurance-associated emissions; and
 - (c) when undertaking the Post-Implementation Review of IFRS S2.

² Paragraph BC90 of the Basis for Conclusions on IFRS S2 states that 'If the GHG Protocol Corporate Standard were to be updated, the ISSB will assess the likely effects of those changes before proposing any changes to IFRS S2 to reflect those updates. The ISSB will update IFRS S2 to include a reference to a modified version of the GHG Protocol Corporate Standard only after it has made this assessment and sought feedback on any proposed change in accordance with the IFRS Foundation's due process.'

³ The GHG Protocol is expected to release documents for public consultation from 2025 and publish final standards/guidance in 2027. Refer to: 'GHG Protocol Corporate Suite of Standards and Guidance Update Process', Greenhouse Gas Protocol, 2024, <https://ghgprotocol.org/ghg-protocol-corporate-suite-standards-and-guidance-update-process>

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13. To inform the staff analysis, and specifically whether there is sufficient evidence to make an informed recommendation for what the duration of the transition relief should be, the staff considered the following factors:
- (a) **the existence and maturity of GHG measurement methodologies:** the work of the Partnership for Carbon Accounting Financials (PCAF) is an example of this.
 - (b) **current disclosures:** this can provide an indication of how established measurement methodologies are and the readiness of entities to provide this information. This assessment is based on the extent to which entities are including the emissions associated with derivatives, facilitated emissions and insurance-associated emissions in their GHG measurement per their disclosures.
 - (c) **climate-related commitments (such as GHG emissions reduction targets):** this can provide an indication of when measurement methodologies might become sufficiently established to support reporting requirements. If an entity has disclosed GHG emissions from derivatives, facilitated emissions or insurance-associated emissions as part of its emissions reduction target, that might indicate the entity's ability or its expectation about when it will be able to measure and track such emissions. Similarly, the scoping guidance from global financial sector alliances—while voluntary—might indicate the practical ability to include some of these emissions within their GHG measurement and reporting.
14. For further details on the staff's research about these factors, refer to Appendix A of this paper.
15. Based on the staff analysis, the stage of establishment of measurement methodologies for emissions associated with derivatives, facilitated emissions and insurance associated emissions differs significantly. There has been a continued evolution of measurement methodologies for facilitated emissions and insurance-associated emissions—albeit at different stages—whilst there is very limited evidence of the

establishment of measurement methodologies for emissions associated with derivatives. On this basis, there is more evidence to support the ISSB's determination of a transition period for facilitated emissions and insurance-associated emissions than for emissions associated with derivatives.

16. The staff also considered the linkage between the stage of GHG measurement methodology development and the state of disclosure and commitments, with progress in one factor affecting the progress of the other.
17. Additionally, the staff's analysis showed a range of between one to six years in the period over which entities might be required to provide targets associated with these emissions under their commitments with various voluntary alliances.

Scoping the relief

18. The staff notes that when an exception is made to a requirement in a Standard it is particularly important to be clear about the scope of the exception.
19. IFRS S2 requires disclosure of Scope 3 GHG emissions, including all Scope 3 Category 15 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).
20. The GHG Protocol Corporate Value Chain Standard describes Scope 3 Category 15 GHG emissions as associated with the following financial investments and financial services:
 - (a) Equity investments, debt investments, and project finance;
 - (b) Managed investments (ie investment and asset management);
 - (c) Client services; and

- (d) Other investments and financial services not included in paragraph 20(a) through 20(c) of this paper.⁴
21. The capital market activities that give rise to facilitated emissions are a subset of the client services in paragraph 20(c) and the insurance activities that gives rise to insurance-associated emissions are a subset of the other financial services in paragraph 20(d). Derivatives are included in other investments and financial services under paragraph 20(d).
22. In assessing how to scope the Category 15 GHG emissions relief, the staff considered two approaches:
- (a) defining what of Category 15 is *in* scope ('in-scope' approach), that is, define *what is required* to be included in the measurement and disclosure of Category 15 GHG emissions; and
 - (b) defining what of Category 15 is *out* of scope ('out-of-scope' approach), that is, define *what is not required* to be included in the measurement and disclosure of Category 15 GHG emissions.
23. The way the exclusions are defined will affect how easily the relief can be understood and how consistently it can be applied by preparers, and whether there is a clear basis for assurance.

In-scope approach

24. Under the in-scope approach, the requirement to disclose Scope 3 GHG emissions would be amended to limit what is required to be included in the disclosure of Category 15 GHG emissions to only those financed emissions specified in IFRS 2. IFRS S2 defines financed emissions as 'the portion of gross greenhouse gas emissions of an investee or counterparty attributed to the *loans and investments* made by an

⁴ 'Table [5.9] Accounting for emissions from investments (required)' and 'Table [5.10] Accounting for emissions from investments (optional)', *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard*, World Resources Institute, 2011, pages 52–54, https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf.

entity to the investee or counterparty’ [*emphasis added*]. This limitation would be consistent with the terminology in paragraph 29(a)(vi)(2) of IFRS S2 which states that the additional information for Category 15 GHG emissions (paragraphs B58-B63 of IFRS S2) applies to financed emissions.

25. To avoid confusion related to whether emissions associated with derivatives would meet the definition of financed emissions, it could be noted that for the purposes of the relief, derivatives are excluded from loans and investments referenced in the definition of financed emissions in IFRS S2.
26. Additionally, the result of the in-scope approach is the exclusion of facilitated emissions and insurance-associated emissions from the requirements of paragraph 29(a)(i)(3), because the ‘in-scope’ approach limits the requirements to financed emissions.
27. The benefits of the in-scope approach are that it is a clear and succinct way to amend IFRS S2, thus reducing the risk of complexity in application of the relief. The risk of this approach is that it potentially goes beyond the scope of the stakeholders’ questions that were discussed at the TIG meeting, which is what gave rise to the proposed relief. Said differently, this relief would not only include derivatives, facilitated emissions and insurance-associated emissions but also other Category 15 emissions that are not financed emissions.

Out-of-scope approach

28. Under the out-of-scope approach, the relief would require definitions for each exclusion from the Scope 3 Category 15 GHG emissions. So, for example, it would be stated explicitly that the amounts required to be disclosed in accordance with paragraph 29(a)(i)(3) of IFRS S2 exclude emissions in relation to derivatives, facilitated emissions and insurance-associated emissions.
29. In considering potential ways in which derivatives, facilitated emissions and insurance-associated emissions can be defined for the purpose of this relief, the staff have considered:

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- (a) definitions from existing GHG emissions measurement methodologies (eg. PCAF Standards);
 - (b) definitions from IFRS Sustainability Disclosure Standards and SASB Standards (that is, existing IFRS sustainability literature);
 - (c) definitions from generally accepted accounting principles (GAAP) used in the preparation of the entity's related financial statements; and
 - (d) not defining derivatives, facilitated emissions and insurance-associated emissions.
30. The staff have assessed the benefits and risks of each of these options. Additionally, the staff have considered whether and how each option could apply to derivatives, facilitated emissions and insurance-associated emissions.
31. **Definitions derived from existing GHG emissions measurement methodologies:**
- (a) *Benefits:* minimising disruption to preparers' existing GHG emissions accounting, allowing those preparers to leverage information from their existing GHG emissions reporting systems and processes. If a single definition was identified, it would also result in preparers using a consistent definition in applying the relief.
 - (b) *Risks:* measurement methodologies that are available but nascent have the potential not to be used widely, leading to challenges in application or diversity in application.
 - (c) *Application to derivatives, facilitated emissions and insurance-associated emissions:* the staff have not identified a definition for derivatives in GHG emissions measurement methodologies, however definitions are provided by the relevant PCAF Standards for both facilitated emissions and associated emissions (albeit the definitions are limited to the activities included within the scope of the existing methodologies – refer to Table 1B and 1C in Appendix A of this paper).

32. Definitions derived from IFRS sustainability literature:

- (a) *Benefits*: utilisation of descriptions included in the Industry-based Guidance on Implementing IFRS S2 (Industry-based Guidance) is based on the underlying economic activities of the entity, which is consistent with the approach taken in the development of GHG emissions measurement methodologies. Additionally, since the Industry-based Guidance is aligned with SASB Standards, it allows preparers that have already used SASB Standards to use existing information that they might have in their reporting processes. This would also result in preparers using a consistent definition in applying the relief.
- (b) *Risks*: the descriptions in the Industry-based Guidance are not an exact match with the scope of activities and asset classes in the existing GHG emissions measurement methodology which might make application of the relief challenging. This might also result in conflicts with how the specific asset class or financial activities are defined in the related financial statements (to the extent they are defined).
- (c) *Application to the derivatives, facilitated emissions and insurance-associated emissions*: derivatives are not defined in either ISSB Standards or SASB Standards. Although not defined, descriptions of activities associated with both facilitated emissions and associated emissions are provided through relevant industry descriptions within Industry-based Guidance on Implementing IFRS S2. There are noted differences between what is included in the Part B Standard, Part C Standard and the relevant descriptions in the Industry-based Guidance.^{5,6}

⁵ The Part B Standard defines its scope not only by financial activities, but also by role of the financial institution as lead bookrunner and by asset class. The Part B Standard scopes in some activities which are not explicitly included in the Industry-based Guidance on Implementing IFRS S2, e.g. facilitation of loan syndication. Further, the description of capital market functions in Industry-based Guidance on Implementing IFRS S2 includes activities which are not in the scope of the Part B Standard, eg advisory services.

⁶ The scope of the Part C Standard is limited to insurance/reinsurance underwriting of commercial and personal motor vehicle lines of insurance. In contrast, the scope of the description of the insurance industry in the Industry-based Guidance on Implementing IFRS S2 is much broader in scope in terms of activities and types of insurance/reinsurance products described.

33. **Definitions derived from the generally accepted accounting principles (GAAP) used in preparation of the entity's related financial statements**
- (a) *Benefits*: supports consistency between a preparer's sustainability-related financial disclosures and the related financial statements. This also might allow for a preparer to use existing information from its financial reporting process. This approach would be expected to support consistent application at a jurisdictional level.
 - (b) *Risks*: as ISSB Standards are GAAP-agnostic, different entities applying ISSB Standards might use different GAAP in preparing their related financial statements.⁷ This means that what is excluded from the scope of GHG emissions might vary depending on the GAAP applied (for example derivatives are defined differently in IFRS Accounting Standards and US GAAP). Additionally, there is a risk of divergence or other fundamental misalignment between definitions in GAAP and definitions in GHG emissions accounting, which could make the relief challenging to apply.
 - (c) *Application to the derivatives, facilitated emissions and insurance-associated emissions*: derivatives are defined in GAAP, including IFRS Accounting Standards and US GAAP. Definitions are not provided for facilitated emissions or associated emissions. In addition, definitions are not generally provided for financial activities related to facilitated or associated emissions in GAAP, although definitions related to insurance activities can be found in some GAAP, eg. IFRS 17 *Insurance Contracts* defines an 'insurance contract' and ASC 944 *Financial Services – Insurance* defines an 'insurance entity'.
34. **Not defining derivatives, facilitated emissions and insurance-associated emissions:**

⁷ Paragraph BC5 of the Basis for Conclusions on IFRS S1 states that 'IFRS S1 is designed to require the disclosure of information that complements an entity's financial statements, regardless of which generally accepted accounting principles or practices (GAAP) the entity uses in preparing those financial statements.'

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- (a) *Benefits*: entities applying IFRS S2 could determine the most appropriate manner to define the exclusion, depending on considerations related to consistency with GHG measurement methodologies and with other information that is reported by the entity (for example, with what is disclosed in the related financial statements).
 - (b) *Risks*: entities applying the ISSB Standards might define what is excluded in different ways resulting in a lack of consistency in what is excluded from Scope 3 Category 15 GHG emissions disclosures, thus reducing comparability.
 - (c) *Application to the derivatives, facilitated emissions and insurance-associated emissions*: can be applied to both derivatives and the specific financial activities subject to the relief.
35. The level of complexity of the scoping approach is an important factor in assessing the choice between the in-scope and out-of-scope approach. The staff thinks that the more intricate the scoping approach, the greater the risk of unintentionally complicating how IFRS S2 and GHG measurement methodologies can work together, which might cause undue disruption to the implementation of IFRS S2.
36. Based on this analysis the staff notes there is complexity in identifying appropriate definitions under the out-of-scope approach, including:
- (a) the current evolving state of GHG measurement methodologies;
 - (b) misalignment between definitions used in GHG measurement methodologies and GAAP;
 - (c) misalignment in the scope of GHG measurement methodologies and the scope of activities in SASB Standards; and
 - (d) inconsistency in the application of the relief if an entity were to use definitions from the GAAP used to prepare the related financial statements.

Information required to be disclosed by entities applying the relief

37. The staff considered whether an entity should be required to provide information about the derivatives or specific financial activities excluded from Scope 3 GHG Category 15 emissions if it uses the relief, and if so, what information should be required to be disclosed.
38. At a minimum, the staff think that disclosure of what has been excluded from Scope 3 Category 15 GHG emissions disclosures would be useful to primary users' understanding of the exclusions and the completeness of an entity's disclosures.
39. Additionally, the staff considered if any other information would meet the objective of IFRS S2 in lieu of disclosing some of its Scope 3 Category 15 GHG emissions. The Basis for Conclusions on IFRS S2 explains that Scope 3 GHG emissions provide users with quantitative information relevant to understanding an entity's exposure to climate-related risks and opportunities in its value chain, particularly those associated with its transition to a lower-carbon economy (paragraph BC79 of the Basis for Conclusions on IFRS S2).
40. Therefore, in the absence of some of its Scope 3 Category 15 GHG emissions disclosure, the staff have also considered whether as part of the provision of the relief, entities applying the relief could provide additional information that is useful to understand their climate-related transition risk.
41. In determining the disclosure requirements for entities applying the relief, the staff considered existing disclosures in IFRS S2 related to (1) quantifiable information about activities or assets and (2) other information that is relevant to users' understanding of an entity's transition risk:
- (a) the amount and percentage of assets or business activities vulnerable to transition risks (paragraph 29(b) of IFRS S2); and
 - (b) disaggregating financed emissions by industry (paragraphs B62(a)(i) and B63(a)(i) of IFRS S2).

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42. The staff considered that the ISSB could use an approach similar to the framing in paragraph 29(b) of IFRS S2. That is, requiring an entity to disclose the amount of derivatives and specific financial activities excluded from the measurement of Scope 3 Category 15 GHG emissions as a result of using this relief. This would have the benefit of allowing an entity to determine the most appropriate way to provide information about the exclusion that is entity-specific and useful to primary users.
43. The staff also considered whether more specific and distinct disclosure requirements should be required for derivatives and each specific financial activity excluded from the measurement of Scope 3 Category 15 GHG emissions by an entity applying the relief. These considerations included, for example, requiring entities to disclose information that might be used as inputs to a GHG emissions calculation or disaggregating information about the excluded derivatives and specific financial activities by industry, similar to the industry disaggregation in the additional requirements for financed emissions. However, the staff concluded that such specific requirements might be challenging to determine given the stage of development of GHG measurement methodologies and GHG emissions disclosure and unintentionally complicate the reporting process. Such risks might counteract the benefit of using the relief. The staff also notes that it is important to consider the risk of disruption if new disclosures are proposed at this stage when entities are already in the process of implementing IFRS S2.

Staff recommendations

44. In considering whether there is sufficient evidence to support the ISSB making an informed decision about the duration of the transition period the staff think that the ISSB could potentially determine an appropriate transition period for both facilitated emissions and insurance-associated emissions. This is because there is evidence of emerging measurement methodologies and relevant commitments. However, it is still difficult to determine what period is appropriate.
45. The staff do not think a transition period can be provided for emissions associated with derivatives at this time due to the lack of an established measurement

methodology with no clear indication as to whether such methodologies might emerge and become sufficiently established.

46. On this basis, the staff recommend that the ISSB amend IFRS S2 to remove the requirement to disclose such GHG emissions, while acknowledging that the ISSB might reconsider this decision at a future date if circumstances change such that an appropriate end date for the relief can be determined. The staff notes that amending IFRS S2 in this way would be consistent with the ISSB's initial decisions to exclude derivatives, facilitated emissions and insurance-associated from the Scope 3 Category 15 additional information requirements in paragraphs B58-B63 of IFRS S2.
47. In considering how to scope the relief, the staff think that on balance of the considerations outlined in paragraph 18-36 of this paper, the ISSB should take the in-scope-approach. That is, to provide the relief by limiting the requirement to disclose Scope 3 Category 15 GHG emissions to financed emissions as defined in IFRS S2. This is because of the complexities in defining the assets or activities out of scope and the advantages of using a definition that already exists in IFRS S2. To avoid any confusion in relation to derivatives, the staff recommend that the ISSB specifies that, in relation to this relief, financed emissions exclude emissions associated with derivatives. The staff do not recommend the ISSB define derivatives given the complexities as outlined in paragraphs 31(c), 32(c) and 33(c) of this paper.
48. It is the staff's view that, the entity should be required to disclose additional information about the extent of the derivatives and financial activities excluded from the Scope 3 Category 15 GHG emissions measurement as a result of using this relief as described in paragraph 42.
49. In summary, the staff recommends that IFRS S2 be amended to exclude Category 15 GHG emissions associated with derivatives, facilitated emissions and associated emissions as follows:
 - (a) limit the disclosure and measurement requirements for Scope 3 Category 15 GHG emissions to financed emissions, as defined in IFRS S2 (excluding emissions associated with derivatives); and

- (b) require that an entity disclose information about the extent of derivatives and specific financial activities that are excluded from its measurement of Scope 3 Category 15 GHG as a result of applying the relief.

Use of GWP values from the latest IPCC assessment when a jurisdiction requires the use of different GWP values

Staff analysis

- 50. Agenda Paper 9A summarises the staff recommendation that IFRS S2 should be amended to permit the use of GWP values required by a jurisdictional authority or exchange on which an entity is listed instead of the GWP values that are from the latest IPCC assessment. The existing jurisdictional relief is not for a finite duration (ie it is not transition relief). The staff recommend that this same approach is used for this additional relief. However, the staff notes that the existing relief is available for as long as the jurisdictional or exchange requirement applies to the entity and propose that, similarly, an entity would be permitted to use the alternative GWP values as long as that requirement applies to the entity.
- 51. The staff considered whether it is necessary to introduce a requirement for an entity to disclose GWP values used, if applying the relief. However, the staff noted that an entity is already required to disclose the measurement approach, inputs and assumptions it has used to measure its GHG emissions (in accordance with paragraph 29(a)(iii)(1) of IFRS S2), which would include:
 - (a) explaining the GWP values used; and
 - (b) if necessary, why it has not used the GWP values from the latest IPCC assessment.
- 52. Therefore, the staff does not think it is necessary to introduce an additional disclosure requirement because IFRS S2 already requires disclosure of material information about the use of an entity's GWP values.

Staff recommendations

53. The staff recommends the ISSB amend IFRS S2 to extend the jurisdictional relief such that if an entity, in whole or in part, is required by a jurisdictional authority or exchange on which it is listed to use GWP values that are not from the latest IPCC assessment, the entity is permitted to use those GWP values instead of using the GWP values from the latest IPCC assessment. This will essentially extend the jurisdictional relief already provided in IFRS S2.

Application of the jurisdictional relief in IFRS S2, related to the method for measuring GHG emissions in specific circumstances, and its applicability to a part of a reporting entity

Staff analysis

54. Agenda Paper 9A summarises the staff recommendation to amend IFRS S2 to clarify that the jurisdictional relief regarding use of a method other than the GHG Protocol Corporate Standard to measure GHG emissions can be used if the entity, in whole or in part, is subject to such a requirement.
55. The staff considered whether it is necessary to introduce a specific requirement for an entity to disaggregate GHG emissions by measurement method, if the entity uses more than one method to measure GHG emissions applying the relief. The staff noted that when an entity applies the jurisdictional relief, it must apply the requirements related to the aggregation and disaggregation of information (paragraphs B29–B30 of IFRS S1). Further, the staff note that paragraph B28 of IFRS S2 requires that an entity disclose the applicable method and measurement approach the entity uses to determine its GHG emissions when it uses the jurisdictional relief.
56. Therefore, the staff does not think it is necessary to introduce an additional disclosure requirement about disaggregation. If an entity measures some of its GHG emissions using the GHG Protocol Corporate Standard, and some using alternative method(s) for measuring as required by a jurisdictional authority, it will already be required to

consider if aggregating those GHG emissions obscures material information applying IFRS S1. The staff recommends that this be highlighted in the Basis for Conclusions on the amendments to IFRS S2.

Staff recommendations

57. The staff recommends the ISSB amend IFRS S2 to clarify that the jurisdictional relief is applicable if the entity is required, in whole or in part, by a jurisdictional authority or exchange on which it is listed to use a method other than the GHG Protocol Corporate Standard to measure GHG emissions. That is, the jurisdictional relief can be applied to part of the entity as well as the whole of the entity.

Questions for the ISSB members

58. The staff presents the following questions for the ISSB.

Questions for ISSB

1. Does the ISSB have any comments or questions on the considerations set out in this paper?
2. Does the ISSB agree with the staff recommendations regarding:
 - a. the application of requirements related to Scope 3 Category 15 GHG emissions related to derivatives, facilitated emissions and insurance-associated emissions, as set out in paragraph 49? Specifically,
 - i. providing the Scope 3 Category 15 GHG emissions relief as a removal of the requirement, as opposed to a transition relief of a finite duration;
 - ii. defining the scope of the relief for Scope 3 Category 15 GHG emissions by limiting the requirement to financed emissions, specifying that financed emissions excludes derivatives for the purpose of applying the relief; and
 - iii. requiring that an entity disclose information about the extent of derivatives and specific financial activities that are excluded from its measurement of Scope 3 Category 15 GHG emissions as a result of applying the relief.
 - b. the use of GWP values that are required by a jurisdictional authority or exchange on which an entity is listed instead of using the GWP values from the latest IPCC assessment, as set out in paragraph 53?
 - c. the application of the jurisdictional relief when a jurisdictional requirement applies only to part of a reporting entity, as set out in paragraph 57?

Appendix A—Staff analysis

A1. The staff reviewed entity reports in the financial sector to assess the state of disclosure and the state of climate-related commitments. The reports reviewed by the staff included the annual reports, sustainability reports or climate reports of each sampled entity as applicable. The sample size of 45 entities covered a wide geographical footprint and included large, global financial institutions. Tables 1A—1C set out the detailed staff findings.

Table 1A – Emissions associated with derivatives: summary of staff findings

State of measurement methodology	State of disclosure	State of climate-related commitments
<p>No evidence of an established measurement methodology.</p> <ul style="list-style-type: none"> <i>PCAF</i>: PCAF Financed Emissions Standard (Part A Standard) does not provide guidance on GHG emissions calculations for derivatives and has not indicated a timeline for doing so in future editions. <i>Others</i>: although approaches to considering derivatives as part of climate risk management are emerging^{8,9}, there is limited evidence of established methodologies for 	<p>Limited evidence of entities including derivatives in Scope 3 Category 15 GHG emissions disclosures.</p> <ul style="list-style-type: none"> <i>Inclusions</i>: almost all entities that report Scope Category 15 GHG emissions are only doing so for financed emissions. Many entities disclose the composition of their financed emissions in terms of asset classes that are included in the calculation. Little evidence was found of companies including derivatives in these disclosures. 	<p>Limited evidence of target-setting guidance and entities including derivatives in Scope 3 Category 15 GHG emissions commitments.</p> <ul style="list-style-type: none"> <i>Target-setting guidance</i>: target-setting guidance such as that of the Science-Based Targets Initiative (SBTi), Net-Zero Banking Alliance (NZBA), Net-Zero Asset Owner Alliance (NZAOA), Net-Zero Insurance Alliance (NZIA) either explicitly exclude derivatives from their guidance or are silent on their inclusion.^{10 11 12 13} <i>Targets disclosure</i>: based on entities' disclosures, there is little evidence of entities including

⁸ B Bateson, J Scott, 'Derivatives & Bank Climate Risk', Ceres Accelerator for Sustainable Capital Markets, 2022, <https://www.ceres.org/resources/reports/derivatives-bank-climate-risk>.

⁹ 'Derivatives and Hedge Funds Guidance', Institutional Investors Group on Climate Change, 2024, <https://139838633.fs1.hubspotusercontent-eu1.net/hubfs/139838633/IIGCC%20Derivatives%20and%20Hedge%20Funds%20Guidance%202024-1.pdf>

¹⁰ 'SBTi Financial Institutions' Near-term Criteria Version 2.0', Science Based Targets initiative, 2024, <https://sciencebasedtargets.org/resources/files/Financial-Institutions-Near-Term-Criteria.pdf>.

¹¹ 'Net-Zero Banking Alliance Frequently Asked Questions', United Nations Environment Programme Finance Initiative (UNEPFI), 2022, <https://www.unepfi.org/wordpress/wp-content/uploads/2022/06/FAQ-General-3.pdf>.

¹² 'Net-Zero Asset Owner Alliance Target Setting Protocol', Third Edition, UNEPFI, 2023, <https://www.unepfi.org/wordpress/wp-content/uploads/2023/03/AOA-Target-Setting-Protocol-Third-edition.pdf>.

¹³ 'Net-Zero Insurance Alliance Target-Setting Protocol', Version 1.0, UNEPFI, 2023, <https://www.unepfi.org/wordpress/wp-content/uploads/2023/01/NZIA-Target-Setting-Protocol-Version-1.0.pdf>.

State of measurement methodology	State of disclosure	State of climate-related commitments
measuring emissions from derivatives.	<ul style="list-style-type: none"> <i>Exclusions:</i> a few entities explicitly disclose that derivatives are excluded from their financed emissions and note the lack of a measurement methodology as a reason for the exclusion. 	derivatives in their GHG emissions reduction targets.

Table 1B – Facilitated emissions: summary of staff findings

State of measurement methodology	State of disclosure	State of climate-related commitments
<p>Evidence of an emerging PCAF measurement methodology for facilitated emissions.</p> <ul style="list-style-type: none"> PCAF released the Facilitated Emissions Standard (Part B Standard) in 2023, following a consultation process that began in 2021. The Part B Standard covers capital markets activity in which the financial institution assists the issuer in accessing finance through the primary issuance and sale of securities or syndication of loans.¹⁴ There are several financial products that are out-of-scope of the current Part B Standard which PCAF might include in 	<p>Evidence of emerging facilitated emissions disclosure among large entities.</p> <ul style="list-style-type: none"> A few large global investment banks have started disclosing facilitated emissions in the past two to three years. Almost all the entities disclosing facilitated emissions refer to using guidance from the PCAF Part B Standard. Of those entities disclosing facilitated emissions, only a few of these entities disclosed the scope of their capital markets activity covered, thus it is difficult to ascertain the extent of completeness of this disclosure. 	<p>Evidence of emerging incorporation of facilitated emissions in climate commitments.</p> <ul style="list-style-type: none"> <i>Target-setting guidance:</i> the latest edition of the NZBA guidance requires banks to include capital markets activity in their existing targets by November 2025 and to include them in new targets set from this date.¹⁶ The NZBA also encourages the use of PCAF Standards as a credible source to use for measurement of these emissions. <i>Targets disclosure:</i> Of the few entities reporting facilitated emissions, some are including these emissions in their interim-targets and net-zero targets. For entities that are signatories to PCAF, meeting their pledge requires that they make their first PCAF aligned disclosure within

¹⁴ The Part B standard scopes in capital market activities of the lead bookrunner with respect to various financial products: facilitation of private placement debt and equity securities; facilitation of public issuances of common stock, preferred shares all general-purpose bonds; and facilitation of loan syndication.

¹⁶ 'Guidelines for Climate Target Setting for Banks', Version 2, UNEPFI Net-Zero Banking Alliance, 2024, <https://www.unepfi.org/wordpress/wp-content/uploads/2024/03/Guidelines-for-Climate-Target-Setting-for-Banks-Version-2.pdf>.

State of measurement methodology	State of disclosure	State of climate-related commitments
the next edition of the standard. ¹⁵		three years of signing their commitment letter to PCAF. ¹⁷

Table 1C – Insurance-associated emissions: summary of staff findings

State of measurement methodology	State of disclosure	State of climate-related commitments
<p>Evidence of an emerging PCAF measurement methodology for insurance-associated emissions, although the scope is limited.</p> <ul style="list-style-type: none"> • PCAF released its Insurance-Associated Emissions Standard (Part C Standard) in 2022, following a consultation process that began in 2021. • The Part C Standard covers emissions associated with insurance and reinsurance underwriting portfolios. • Currently, the scope of the Standard is limited to commercial insurance and personal motor vehicle insurance. These lines of insurance constitute the majority of global property and casualty insurance 	<p>Evidence of emerging insurance-associated emissions disclosure among large insurance entities.</p> <ul style="list-style-type: none"> • A few large insurance / reinsurance entities began disclosing insurance-associated emissions in the past two to three years. • The entities reporting associated emissions refer to using guidance from the Part C Standard and have limited the scope to personal vehicle and commercial lines of insurance, aligned with PCAF. 	<p>Evidence of emerging incorporation of facilitated emissions in climate commitments.</p> <ul style="list-style-type: none"> • <i>Target-setting guidance:</i> The NZIA guidance requires insurance and reinsurance entities to adopt a near-term target with a target year no later than 2030 for their PCAF aligned insurance-associated emissions.²⁰ • <i>Targets disclosure:</i> Of the few entities reporting insurance-associated emissions, most of them are including these emissions in their interim-targets and net-zero targets. • For entities that are signatories to PCAF, they are to make their first PCAF aligned disclosure within three years of submitting their commitment letter to PCAF.

¹⁵ Out of scope financial products include green bonds, sovereign debt, securitized products and use of proceeds loans. These products were scoped out because of they did not have financed emissions guidance at the time of the Part B Standard release. PCAF is prioritizing expanding the scope of the Part A Standard - as part of an ongoing consultation expected to be completed in 2025 - to include these products, thus PCAF might include these products in the next edition of the Part B Standard.

¹⁷ 'How to join PCAF', Partnership for Carbon Accounting Financials, <https://carbonaccountingfinancials.com/join-pcaf>

²⁰ 'Net-Zero Insurance Alliance Target-Setting Protocol', Version 1.0, UNEPFI, 2023, <https://www.unepfi.org/wordpress/wp-content/uploads/2023/01/NZIA-Target-Setting-Protocol-Version-1.0.pdf>.

State of measurement methodology	State of disclosure	State of climate-related commitments
<p>(P&C insurance) premium volumes.¹⁸</p> <ul style="list-style-type: none"> • PCAF is consulting on methods for two new lines of insurance for its next update to the Part C Standard, namely project insurance and treaty reinsurance. Other significant lines of insurance such as, life and health remain out of scope. Although the Part C Standard mentions that they might expand the scope to include other lines in future editions, the timing of this is unclear.¹⁹ 		

A2. In summary, in considering evidence to support an informed recommendation for the duration of transition relief, the staff note the following for derivatives, facilitated emissions and insurance-associated emissions:

- (a) **derivatives:** there is no established measurement methodology for measuring GHG emissions associated with derivatives, nor evidence of the inclusion in entity’s GHG emissions measurements and disclosures, nor evidence of derivatives being included in climate-related commitments either in entities’ disclosures or as part of the scoping guidance from global financial sector alliances. On this basis, the staff do not think there is sufficient evidence to support an informed recommendation for the duration of transition relief.

¹⁸ P&C insurance can be divided into commercial and personal lines of insurance. In 2023, 51% of global non-life insurance premium volumes were from commercial (26%) and personal (25%) lines. The remaining 49% of global non-life insurance premium volumes were from the health line. Of the personal lines of insurance, 59% of the premiums were from motor vehicle insurance. Refer to 'World insurance: strengthening global resilience with a new lease of life', *sigma 3/2024*, Swiss Re Institute, 2024, page 31, <https://www.swissre.com/dam/jcr:2d26776f-20e4-4228-8ee0-97cec2ddb3c4/sri-sigma3-2024-world-insurance.pdf>.

¹⁹ 'New methods for public consultation for financial institutions measuring and reporting scope 3 category 15 emissions', *The Global Accounting and Reporting Standards Part C*, PCAF, 2024, <https://carbonaccountingfinancials.com/files/PartC-Methods2024-Master-01.pdf>.

- (b) **facilitated emissions:** there is a measurement methodology (Part B Standard) that is in its nascent phase of establishment, evidence of facilitated emissions being included in GHG measurements and disclosures, and evidence of facilitated emissions being included in both entity commitments and as part of the target-setting guidance from global financial sector alliances. Although the scope of the Part B Standard is expected to expand in the coming years, it is already substantial in its current form.
- (c) **associated emissions:** there is a measurement methodology (Part C Standard) that is in the nascent phase of establishment for a portion of insurance underwriting activities, evidence of emerging inclusion in GHG measurements and disclosure, and evidence of insurance-associated emissions being included in both entity commitments and as part of the target-setting guidance from global financial sector alliances. The scope of the Part C Standard covers the majority of P&C lines of insurance, however the lines of insurance that are not in scope of the measurement methodology are not insignificant. PCAF has not provided a timeline as to when the Part C Standard might be applicable to health insurance and life insurance, therefore it might be difficult to determine a transition period. The staff notes the SBTi has stated that insured emissions in the context of the life and health lines are still to be studied comprehensively.²¹

A3. The timelines for signatories to comply with commitments under various alliances might provide an indication of a minimum amount of time that an entity might need to set up the processes required to begin measuring and ultimately disclosing the GHG emissions related to the commitment. The staff notes the following:

- (a) **NZBA:** the NZBA released guidance in 2024 stating that signatories have until 2025 to include facilitated emissions in their commitment, which gives signatories approximately one year to prepare for and apply the revised guidance.

²¹ 'Industry Brief for The SBT Financial Institutions Net-Zero Insurance Standard (Underwriting Portfolios)', SBTi, 2023, pages 26--27, <https://sciencebasedtargets.org/resources/files/SBTi-Insurance-Industry-Brief-Publication.pdf>.

- (b) **NZIA:** the NZIA released guidance in 2023 stating that signatories must have a near-term target that includes insurance-associated emissions that has a target year no later than 2030. Although there is no deadline for when such a target must be set and disclosed, the staff assumes that signatories would do so prior to 2030. On this basis, the signatories have approximately six years from the date the guidance was released to prepare for and apply the revised guidance.
- (c) **PCAF:** PCAF's guidelines state that a signatory has met its pledge once it has disclosed its PCAF disclosures within three years of its commitment.
- (d) **SBTi:** the SBTi requires a 24-month time frame for a signatory to submit their targets for validation once they have committed to doing so.