Staff paper

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ISSB meeting

Date	**January 2025**
Project	**Supporting Implementation of IFRS S1 and IFRS S2**
Topic	**Application challenges and concerns associated with the requirement to use the Global Industry Classification Standard (GICS) in IFRS S2**
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Purpose

1. This paper summarises application challenges and concerns associated with the requirement to use the Global Industry Classification Standard (GICS) in applying specific requirements in IFRS S2 *Climate-related Disclosures* related to financed emissions and sets out staff analysis and recommendations to address these challenges and concerns.

2. The staff notes that this topic was not discussed during the November 2024 ISSB meeting—this topic is being referred to the ISSB to consider for the first time at this meeting. Therefore, this paper follows the same approach taken in Agenda Papers 9A and 9B for this meeting, and is informed by the discussions at the November 2024 ISSB meeting, however is presented separately from the other application challenges and concerns that are being discussed at this meeting. Specifically, this paper:

   (a) summarises the application challenges and concerns associated with the requirement to use GICS for specific financed emissions disclosures;

(b) explains the preliminary staff view that a potential amendment to IFRS S2, to address such challenges and concerns, meets the amendment criteria for application challenges;

(c) sets out the staff analysis and recommendations related to:

i. the timing of when to make such amendment; and

ii. the approach to making the amendment.

3. At this meeting, the ISSB will be asked to vote on:

(a) whether the potential amendment to IFRS S2 discussed in this paper meets the amendment criteria for application challenges and the timing of such potential amendment; and

(b) whether and how to amend IFRS S2.

4. This paper is structured as follows:

(a) Background;

(b) Summary of staff recommendations;

(c) Staff analysis and recommendations; and

(d) Appendix A—Amendment criteria for application challenges.

Background

5. IFRS S2 requires entities participating in particular financial activities to disclose additional and specific information about their Scope 3 Category 15 emissions or those emissions associated with their investments which are also known as 'financed emissions'. Specifically, IFRS S2 requires that entities participating in financial activities associated with (1) commercial banking and (2) insurance disaggregate Scope 1, Scope 2 and Scope 3 GHG emissions for each industry by asset class. When disaggregating by industry, IFRS S2 requires entities to use GICS for classifying counterparties (see paragraphs B62 and B63 of IFRS S2). By requiring the use of a

particular classification system the intention was to support the provision of comparable information.

6. GICS was developed in 1999 by Morgan Stanley Capital International (MSCI) and Standard and Poor's (S&P) to facilitate company-, industry- and sector-level comparisons in global equity markets.[1] GICS classifies an entity based on 'the business activities that generate the majority of the company's revenues' using standardised categories.[2] The GICS structure is regularly reviewed to reflect evolving trends in global equity markets, and the global database of entities classified according to its system is used by over 200 global institutions, and therefore serves as the leading classification system for institutions across the global financial markets.[3] These include 'market exchanges, index providers, and other financial services institutions'.[4]

7. When the decision was made to require the use of GICS in IFRS S2, it was noted that GICS:

   (a) was designed for use in global capital markets, and specifically is widely used in the investment industry due to its integration into a wide range of systems, tools and resources used in global capital markets; and

   (b) is regularly maintained.

8. Therefore, the ISSB required the use of GICS on the basis that it is fit for purpose and would support the objective of achieving international comparability of GHG emissions disclosures for specific financed emissions.

9. We now have additional information about the use of GICS globally including from regulators and national standard-setters in some jurisdictions that are adopting or

[1] MSCI, Standard & Poor's, 'Frequently Asked Questions about GICS', MSCI, accessed 30 April 2024, https://www.msci.com/documents/10199/5973a128-47f0-4317-b083-716a10207b50.

[2] S&P Dow Jones Indices, 'Global Industry Classification Standard (GICS®) Methodology', S&P Global, October 2023, https://www.spglobal.com/spdji/en/documents/methodologies/methodology-gics.pdf.

[3] MSCI, 'Global Industry Classification Standard (GICS®): Putting the Power in Your Hands' MSCI, 2023, https://www.msci.com/documents/1296102/11185224/MSCI_GCIS-cfs-fin.pdf/3f5f9212-be8d-8eb8-b42d-31045a931eb1?t=1679088765411.

[4] R Phillips, R Ormsby, 'Industry classification schemes: An analysis and review', Journal of Business & Finance Librarianship, vol 21, no 1, 2016, 10.1080, 1-25.

otherwise using the ISSB Standards. This stakeholder feedback indicates that there are application challenges and concerns associated with this requirement, including that it could have legal and cost implications for entities applying IFRS S2 (or requirements that are functionally aligned with IFRS S2), as entities must enter into a licensing agreement to use GICS if they are not already using GICS for other purposes. Under the licensing arrangement, company classifications are provided by MSCI and S&P rather than an entity being able to use the system to classify companies themselves. The requirement to use GICS might also result in duplicative reporting if an entity is subject to other reporting requirements (eg prudential regulatory requirements) that require the use of an industry classification system other than GICS.

Summary of staff recommendations

10. The staff recommends that the ISSB consider whether the application challenges and concerns associated with the requirement to use GICS warrant further action. Specifically,

    (a) the staff view is that the potential amendments to IFRS S2 to address these application concerns meet the amendment criteria for application challenges and that the ISSB pursue the potential amendment related to the use of GICS at this time (see paragraphs 33–37); and

    (b) the staff recommends that the ISSB amends IFRS S2 to permit entities in specific circumstances, to use an alternative classification system instead of GICS and to require entities to disclose the industry classification system used and explain the basis for selection, if an entity does not use GICS (see paragraphs 43–44).

Staff analysis and recommendations

Application challenges

11. The ISSB decided to require the use of a specific industry classification system for the disaggregation of information about financed emissions for some financial activities, as it promotes consistency and comparability in disclosures. The ISSB made the decision to require the use of GICS specifically, knowing that there would be circumstances in which:

    (a) an entity would be a 'first-time user' of GICS and therefore would be required to undertake a process to use GICS; and

    (b) an entity might be subject to other reporting requirements that require the use of a different industry classification system, and in such circumstances, the entity might be subject to duplicative reporting requirements.

12. However, since publishing IFRS S2 further feedback has been provided to the ISSB about the consequences of requiring the use of GICS. The staff and ISSB members have become aware, including through engagement with jurisdictions as part of their adoption process of the ISSB Standards, that these challenges might be significant and pervasive. To the extent these challenges result in amendments to the Standards as part of the adoption process, this could conflict with the objective of delivering timely, consistent and comparable sustainability-related financial information to primary users.

13. The staff has also engaged with several prudential regulators that have confirmed that classification systems other than GICS are used as a basis for disaggregation of information by industry for regulatory purposes. This is of particular relevance given that the GICS-based disaggregation in IFRS S2 relates to commercial banking and insurance activities and thus those applying these IFRS S2 requirements are expected often to be subject to prudential regulatory requirements.

Consideration of ways to address the application challenge

14. The staff considered different approaches the ISSB could take to address this application challenge.[5] A summary of these considerations is set out in Table 1.

Table 1: Consideration of ways to address application challenges

Possible action	Potential implications of taking such action	
	Benefits	Risks
Take no action and/or monitor reporting practice	• Promotes enhanced comparability across jurisdictions by requiring the use of a consistent industry classification through GICS. • Ongoing implementation efforts would not be disrupted by an amendment to IFRS S2. • The ISSB could still decide to address this challenge in the future, for example as part of a post-implementation review process.[6]	• Would not respond to stakeholder feedback regarding the challenges of applying this requirement. • Jurisdictional authorities might amend the requirement to use GICS, and permit the use of alternative industry classification systems, negating the benefit of enhanced comparability across jurisdictions, and resulting in fragmented application of the requirements. • Some entities would be subject to duplicative reporting requirements (eg when they are subject to other reporting requirements, such as prudential regulatory requirements).
Develop educational material	• Same benefits as taking no action.	• Would not respond to stakeholder feedback regarding the challenges of applying this requirement; the challenge is not related to understanding the requirements, rather, the application of the requirement to use GICS.

[5] Agenda Paper 9A *Implications of amending IFRS S1 or IFRS S2—Risks and benefits* from the November 2024 ISSB meeting analyses the implications of amending IFRS S1 or IFRS S2 in response to specific implementation challenges or concerns identified by stakeholders related to the implementation of the Standards, and includes considerations related to ways of addressing questions arising from implementation of the Standards.

[6] The *Due Process Handbook* states that a post-implementation review is a due process requirement for each new IFRS Sustainability Disclosure Standard or major amendment. A post-implementation review provides an opportunity to assess the effect of new ISSB Standards on users of general purpose financial reports, preparers, auditors and other stakeholders.

<table>
<tr><th rowspan="2">Possible action</th><th colspan="2">Potential implications of taking such action</th></tr>
<tr><th>Benefits</th><th>Risks</th></tr>
<tr><td>Amend IFRS S2</td><td>Directly addresses the application challenge by permitting entities, in particular circumstances, to use an industry classification system that is different from GICS.</td><td>Disruption to ongoing implementation efforts through an amendment to IFRS S2. However, if GICS is still permitted to be used the risk of disruption is limited.
Comparability across jurisdictions might be affected with the use of different industry classification systems.</td></tr>
</table>

15. The staff thinks that taking no action or developing educational material would not address the application challenges and concerns raised by stakeholders regarding the requirement to use GICS. Specifically, no action would leave those entities that do not already use GICS with the challenges raised with the ISSB (including related to costs and legal considerations associated with its use). Further, educational material would only serve to clarify this point, and clarification of the requirements is not the challenge that has been raised—the requirements are clear.

16. While there is a high bar for amending an ISSB Standard, the staff thinks that an amendment to IFRS S2 would address stakeholder concerns and support implementation of IFRS S2. The concerns related to the additional legal and cost considerations are significant and pervasive, and an amendment could alleviate these concerns. Further, without an amendment by the ISSB, global comparability for these disclosures might not be achieved, as jurisdictions might consider amendments to remove the requirement to use GICS. This risks introducing differences from ISSB Standards even in situations where a jurisdiction is otherwise using IFRS S2. This will affect comparability of information in particular as different jurisdictions could amend this requirement in different ways.

17. The staff also notes that, as summarised in Agenda Paper 9B for this meeting, the ISSB are voting on three other amendments to IFRS S2. All of these amendments relate to the disclosure of GHG emissions, and one of the amendments relates to

financed emissions specifically. If the ISSB agrees with the staff recommendation at this meeting to propose to amend IFRS S2, it would be less disruptive to amend IFRS S2 for this matter at the same time. Particularly given this amendment would also be about the disclosure of GHG emissions—and financed emissions specifically.

18. Therefore, the staff view is that the ISSB should consider whether to amend the requirement for an entity to use GICS for these financed emissions disclosures.[7] Specifically, the staff view is that the ISSB should assess whether an amendment that would allow an entity to use an alternative classification system in particular circumstances is appropriate.

Evaluation of potential amendment to IFRS S2 against amendment criteria for application challenges

19. At the November 2024, the ISSB discussed and agreed on criteria for evaluating potential amendments to IFRS S1 or IFRS S2 that would be used during the implementation phase of the IFRS S1 and IFRS S2 (the amendment criteria for application challenges). This set of criteria is included in Appendix A of this paper for ease of reference. It was agreed that the criteria would be used as a necessary hurdle but would not be determinative in itself of whether an amendment be proposed. That is, the ISSB agreed that it would also consider other relevant factors in deciding whether to propose amendments—including the timing of such amendments and the particular amendments that could be made.

20. In paragraphs 21–32 of this paper, the staff evaluates the potential amendment—to permit entities to use an alternative classification system, in particular circumstances—using the amendment criteria for application challenges.

[7] If the ISSB decided to amend the Standards, any such amendment would be subject to the relevant due process requirements as specified in the *Due Process Handbook*, including the requirement to publish an exposure draft for public consultation. An exposure draft is the ISSB's main vehicle for consulting the public and includes an invitation to comment, setting out the issues that the ISSB has identified as being of particular interest.

Identification of a demonstrated need

21. Stakeholder feedback regarding the requirement to use GICS indicates that there are implementation challenges and concerns associated with the requirement to use GICS, including that such requirement could have legal and cost implications for entities applying IFRS S2—as entities must enter into a licensing agreement to use GICS. The requirement to use GICS might also result in duplicative reporting if an entity is subject to other reporting requirements (eg prudential regulatory requirements) that require the use of an industry classification system other than GICS.

22. This implementation challenge is expected to be pervasive particularly for smaller entities. Based on feedback to date, it also appears that this issue is more pronounced in some jurisdictions.

23. Further, without an amendment by the ISSB, global comparability for these disclosures might not be achieved, as jurisdictions might consider amending the requirement to use GICS when adopting or otherwise using IFRS S2. This risks further fragmentation for preparers and a reduction in comparability for users of general purpose financial reports, in particular as different jurisdictions could amend this requirement in different ways.

24. Therefore, it is the staff view that there is a demonstrated need for the ISSB to amend IFRS S2 in response to the application challenge and to permit entities to use an alternative industry classification system for disaggregating information about such Scope 3 GHG emissions in particular circumstances.

Consideration of loss of useful information

25. The staff notes that an amendment which permits entities to use an industry classification system other than GICS, and in particular an industry classification as required by a jurisdiction or of choice, would affect the comparability of the information provided applying these requirements.

26. However, in considering information that would be lost, and if that loss is significant, the staff notes:

    (a) permitting entities to use an alternative industry classification system in particular circumstances would not prevent an entity from using GICS. That is, entities that either currently provide this information or are planning to provide this information would still be permitted to provide this information, even if IFRS S2 was amended. The amendment would simply relieve entities from a requirement to provide information using GICS in specific circumstances.

    (b) it is becoming evident that comparability is likely to be affected as a result of jurisdictional relief being considered to address the application challenge that has been identified. If the ISSB proposes an amendment to IFRS S2, that provides an opportunity to preserve comparability to the maximum extent possible. That is, it is not proposed that those using GICS already would be relieved from providing information using GICS.

27. Further, if the ISSB were to amend IFRS S2, the staff thinks that the requirements could be amended in a way to minimise the loss of useful information. For example, the ISSB could require entities using GICS for other reporting purposes to continue to use GICS to meet the requirements in IFRS S2.

Consideration of disruption to implementation processes

28. The staff notes the risk of disruption to the implementation of IFRS S2 posed by an amendment to exclude such GHG emissions could include disruption to:

    (a) preparers currently updating or amending systems and processes to disaggregate such GHG emissions on the basis of GICS; and

    (b) jurisdictions that are in the process of or have completed their public consultation to adopt or otherwise use ISSB Standards that may need to incorporate any such changes to IFRS S2.

29. However, in considering whether the amendments would result in undue disruption the staff notes:

    (a) the potential disruption would be limited to those entities for which information about such GHG emissions are applicable and that would result in material information. That is, not all entities will be affected by the amendment.

    (b) because the amendment provides relief from a requirement, it is by its nature less disruptive than amendments that introduce new requirements. Entities that have or are in the process of setting up systems and processes to meet the disclosures requirements could decide to continue to use GICS to disaggregate financed emissions information. That is, essentially an entity could decide if the disruption was warranted by the benefits of the amendment.

    (c) a jurisdiction could decide not to introduce the proposed amendment without affecting the description of the degree of alignment of the jurisdictional requirements with ISSB Standards (as set out in the approach in the *Inaugural Jurisdictional Guide*).[8] Thus, such amendments are not necessary for all jurisdictions that are in the process of or are adopting or otherwise using ISSB Standards.

Other considerations – interoperability, proportionality and connectivity

30. The staff does not expect that this amendment would affect interoperability of ISSB Standards with European Sustainability Reporting Standards (ESRS) or Global Reporting Initiative (GRI) Standards. The staff view that generally the provision of reliefs cannot reduce interoperability and, in some cases might improve interoperability compared with that resulting from IFRS S1 and IFRS S2 without amendment. This is because reliefs provide permissions for entities applying ISSB Standards to choose to apply the requirements using the relief. Additionally, there are

[8] *Inaugural Jurisdictional Guide for the adoption or other use of ISSB Standards* can be found at: https://www.ifrs.org/content/dam/ifrs/supporting-implementation/adoption-guide/inaugural-jurisdictional-guide.pdf

currently no corresponding disclosure requirements related to additional disclosures about financed emissions in ESRS or GRI Standards, therefore there will be no effect on interoperability.[9]

31. Amending IFRS S2 to permit entities to use an alternative industry classification system in particular circumstances does not increase the complexity of the application of the requirements in IFRS S2; in fact, it should reduce the complexity. Consequently, such amendment is not expected to reduce the proportionality of IFRS S2.

32. The amendment is not expected to affect the interaction with IFRS Accounting Standards and therefore will not affect connectivity with the IFRS Accounting Standards.

Staff view and questions for the ISSB

33. In the staff view, an amendment to the requirements associated with the use of GICS meets the amendment criteria for application challenges.

34. Assuming the ISSB agrees that the criteria is met, as set out as part of the criteria, the ISSB then considers other relevant factors in deciding whether to propose amendments—including the timing of such amendments and the particular amendments that could be made to address this concern.

35. Agenda Paper 9A for this meeting discusses the timing of the potential amendments and sets out the staff view about the importance to act now to amend IFRS S2 (see paragraphs 25–29 of Agenda Paper 9A). The staff thinks the reasons set out in Agenda Paper 9A are equally applicable to the potential amendments discussed in this paper.

[9] More information about the disclosure requirements related to additional disclosures about financed emissions in IFRS S2 compared to ESRS or GRI Standards can be found in these guides: *ESRS-ISSB Standards: Interoperability Guidance* and *Interoperability considerations for GHG emissions when applying GRI Standards and ISSB Standards*.

36. The staff notes that the application challenges associated with the requirement to use GICS relate to the same area as the other three potential amendments considered in Agenda Paper 9A and 9B for this meeting—that is, these potential amendments all relate GHG emissions requirements in IFRS S2. Consequently, any proposed amendment related to the requirement to use GICS could be included within a single package with the other amendments considered in this meeting.

37. Therefore, the staff recommends that the ISSB pursue the potential amendments related to the requirement to use GICS at this time.

38. The staff presents the following questions to the ISSB:

Questions for the ISSB
1. Does the ISSB agree with the staff analysis and recommendation that the application challenges and concerns warrant further action in the form of an amendment to IFRS S2—and such potential amendment meets the ISSB's amendment criteria for application challenges? 2. Does the ISSB agree with the staff analysis and recommendation to pursue the potential amendments related to the requirement to use GICS at this time?

How to amend

39. The staff thinks the requirement to use GICS when disaggregating specific financed emissions should be amended such that IFRS S2 would permit entities in specific circumstances to use an alternative classification system instead of GICS to meet the requirements of IFRS S2.

40. In considering how to provide such relief, the staff considered how the application challenges would affect entities depending on whether they are already using GICS:

(a) 'first-time user' of GICS: we expect the application challenges mainly affecting these entities (see paragraphs 11–13 of this paper). Therefore, providing relief to these entities would address the application challenges.

(b) entities that are already using GICS: we expect limited, if any, additional legal and costs implications for these entities to use GICS to meet IFRS S2 requirements. Therefore, the staff thinks it would not be burdensome to these entities to use GICS and this will support the global comparability of entities' financed emissions disclosures.

41. Additionally, we understand disaggregation of information by industry is often required for prudential regulatory requirements. Given these requirements apply to entities participating in financial activities associated with commercial banking and insurance, this should mean many of these entities would already have an existing system for such disaggregation. Permitting an entity that is not already using GICS to use an industry classification system it is required to use to meet jurisdictional requirements enables the entity to use existing systems and processes to support meeting IFRS S2 requirements, thus minimising duplicative reporting whilst maintaining comparability at the jurisdictional level.

42. The staff notes entities might be required by a jurisdictional authority (for example, a prudential regulator) or exchange on which it is listed to use an alternative classification system for the following purposes:

(a) climate-related information reporting purposes: an entity might be required to use an industry classification system to disaggregate climate-related information to meet specific jurisdictional requirements. The staff thinks permitting an entity that is not already using GICS to use such a classification system will address the application challenges; or

(b) other reporting purposes: an entity might be required to use a classification system to disaggregate information other than climate-related information, eg financial information such as gross exposures. The staff thinks such a classification system should also be permitted. However, consideration should be given to prioritise an industry classification system used for climate-reporting purpose, if the entity is using more than one industry classification system.

Staff recommendations on the specific circumstances in which the relief would apply

43. The staff recommends the ISSB amends the requirement to use GICS when disaggregating specific financed emissions such that IFRS S2 states:

(a) if an entity, in whole or in part, is already using GICS to classify its lending and investment activities, then the entity is required to use GICS.

(b) if an entity, in whole or in part, is **not** already using GICS to classify its lending and investment activities and the entity is required by a jurisdictional authority (for example, a prudential regulator) or exchange on which it is listed, in whole or in part, to use an alternative industry classification system to disaggregate their portfolio for other reporting purposes, the entity is permitted to use that industry classification system instead of GICS. If more than one industry-classification system is used an entity should choose a classification system and in doing so prioritise:

i. first: a classification system that is used for climate-related information reporting purposes.

ii. second: a classifications system that is used for other reporting purposes.

(c) in all other circumstances not described in paragraph 43(a)–(b), the entity may choose an industry classification system to provide disaggregated financed emissions information in a manner that is useful to users of general purpose financial reports. That is, information that is useful to primary users in making decisions about providing resources to the entity including that information is relevant and faithfully represent what it purports to represent.

44. The staff recommends that IFRS S2 should also be amended to require entities to disclose the industry classification system that is being used for the purposes of disaggregating financed emissions information and if it is not GICS then explain the basis for the selection (for example whether the system is used for prudential reporting or why the entity has determined that it would result in useful information). The staff believes that this is important to ensure that users of general purpose

financial reports can understand the basis of disaggregation and to facilitate comparisons between entities.

Alternatives considered but rejected

45. The staff considered but rejected other approaches to amend IFRS S2, specifically:

    (a) **the use of another specific industry-classification system:** the staff considered whether to require the use of an alternative industry-classification system, for example, the Sustainable Industry Classification System (SICS).[10] From a sustainability reporting perspective, SICS has some advantages, such as grouping entities together based on having similar impacts and dependencies that arise from an industry's associated economic activities. However, while SICS is increasingly being used by global capital market participants, currently, it is not as widely used as GICS, as GICS has long been integrated into a wide range of systems, tools and resources used in global capital markets.[11] Moreover, the staff has not identified another global industry classification system that is expected to provide the comparability benefits and existing use that had been expected to be provided by GICS. Therefore, the staff thinks the benefit of requiring the use of GICS would currently outweigh requiring the use of another industry classification systems.

    (b) **introduce a jurisdictional relief in IFRS S2 to permit entities to use an alternative industry-classification system when that system is required to be used by a jurisdictional authority or exchange on which the entity is listed instead of GICS:** the staff considered the same approach recommended by the staff in Agenda Paper 9B for the amendment related to Global Warming Potential (GWP) values. However, the staff thinks that there is a need for more nuance in the approach to this amendment; specifically, the hierarchy of considerations as set out in the proposed amendment. In

[10] Refer to paragraphs 16–21 of Agenda Paper 6A of the May 2024 ISSB meeting for more information about SICS
[11] More information about the profiles of organisations using SICS can be found at https://sasb.ifrs.org/licensing-use/firms/

structuring this amendment in this manner, an entity might still be required to use GICS if already being used by the entity for other purposes regardless of jurisdictional requirements—which would not be the case if the ISSB only introduces a jurisdictional relief that would apply to all entities. This preserves comparability across disclosures, as it maintains a requirement to use GICS, even if it only applies to entities already using GICS. Further, the recommended approach would accommodate, in circumstances in which the entity is not using GICS and is not required by a jurisdiction to use a specific classification system, to use an industry classification system of choice. This would also not be permitted if the ISSB only introduces a jurisdictional relief.

(c) **eliminate requirement to use GICS and permit entities to select an industry classification system:** the staff considered whether entities should not be subject to a requirement to use a specific industry classification system. However, the staff thinks the ISSB's considerations when finalising IFRS S2, to require the use of GICS, reflects the importance of comparability in disclosures for users of general purpose financial reports. Comparability is promoted with the requirement to use a specific industry classification system. The staff thinks this application challenge can be addressed to both alleviate stakeholder challenges and concerns while also maintaining comparability. For example, if an entity already uses GICS, it will continue to use GICS, thus promoting comparability in disclosures across entities using GICS. Also, if required by a jurisdictional authority to use an alternative classification system, to use that system, which also promotes comparability across entities in a jurisdiction because for example, all entities subject to prudential regulation in a jurisdiction could apply a common applicable industry-classification system promoting intra-jurisdictional comparability.

Effects analysis

46. The staff considered the likely effects for stakeholders of the potential amendments compared to the requirements in IFRS S2, including considerations associated with the costs and benefits for stakeholders. The staff does not expect this potential amendment to introduce costs to stakeholders; in fact, this amendment will likely reduce costs by reducing the associated reporting burden and would therefore provide meaningful support (benefit) to entities applying IFRS S2. The staff thinks that the cost of applying the requirement to use GICS is not outweighed by the benefit that would be provided to primary users from the requirement to use GICS.

Questions for the ISSB

47. The staff recommendation to amend the requirements in IFRS S2 to use GICS when disaggregating specific financed emissions is set out in paragraphs 43–44. The staff presents the following questions for the ISSB:

Questions for the ISSB
3. Does ISSB agree with the staff analysis and recommendation on how to amend IFRS S2, that is, IFRS S2 be amended as recommended in paragraphs 43–44? 4. Does the ISSB have any comments or questions on the considerations set out in this paper?

Appendix A—Amendment criteria for application challenges[12]

A1. Any amendments made to IFRS S1 or IFRS S2 in response to stakeholder feedback on application challenges identified in implementing the Standards would need to meet the ISSB implementation amendment criteria:

(a) be considered only if the ISSB identifies a demonstrated need, after it has explored all other options, to respond to pervasive application challenges arising from implementation, including concerns related to diversity in practice.

(b) not result in a significant loss of useful information, including significant reduction of the qualitative characteristics of useful sustainability-related financial information, compared with that provided by entities applying the issued requirements in IFRS S1 and IFRS S2.

(c) not unduly disrupt entities' processes for implementing or jurisdictional processes for adopting or using IFRS S1 and IFRS S2. The ISSB would balance the need for amendments with the potential disruption they could cause. The ISSB would seek to avoid amendments that, compared to the issued requirements, would:

(i) reduce interoperability between the IFRS Sustainability Disclosure Standards and either the European Sustainability Reporting Standards or the GRI Standards.

(ii) reduce connectivity between the IFRS Sustainability Disclosure Standards and the IFRS Accounting Standards.

(iii) increase the complexity of applying the requirements in IFRS S1 or IFRS S2, reducing the proportionality of the Standards.

A2. The ISSB would also consider other relevant factors in deciding whether and how to propose amendments.

[12] This is the criteria as voted on by the ISSB at the November 2024 ISSB meeting.