Greenhouse Gas Emissions Disclosure requirements applying IFRS S2 *Climate-related Disclosures*

Educational material

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INTRODUCTION

IFRS S2 *Climate-related Disclosures* requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect its cash flows, access to finance or cost of capital over the short, medium or long term. These disclosures include cross-industry climate-related metrics such as greenhouse gas (GHG) emissions.

This document provides information about the requirements for an entity to disclose its GHG emissions in accordance with IFRS S2. This document is presented as a series of questions and answers, and includes questions about:

- the context and reasoning underlying GHG emissions-related requirements;
- the use of *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (2004) and *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (2011) (collectively the GHG Protocol Standards); and
- specific aspects of the GHG emissions-related requirements.

The GHG emissions-related requirements in IFRS S2 can be categorised into two distinct types, one related to measurement and the other related to disclosure. This document is organised in this manner because understanding which category a requirement belongs to is helpful context for understanding what is required.

OBJECTIVE OF THIS EDUCATIONAL MATERIAL

The objective of this educational material is to help readers understand the GHG emissions disclosure requirements in IFRS S2, including those related to:

- providing information about absolute gross GHG emissions generated during the reporting period; and
- disclosing information about GHG emissions, such as GHG emissions targets.

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BACKGROUND

Question 1: Why does IFRS S2 include requirements to disclose information about GHG emissions, including Scope 3 GHG emissions?

The objective of IFRS S2 is to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity. Climate-related risks and opportunities are:

- risks arising from potential negative effects of climate change on an entity, including both physical risks and transition risks; and
- opportunities arising from potential positive effects arising from climate change for an entity.

Climate-related transition risks are risks that arise from efforts to transition to a lower-carbon economy. These risks include policy, legal, technological, market and reputational risks. Information about an entity's risks and opportunities arising from GHG emissions—including those related to Scope 3 GHG emissions—can help primary users assess an entity's exposure to specific climate-related risks and opportunities associated with a transition to a lower-carbon economy.

Climate-related risks and opportunities, like all sustainability-related risks and opportunities, arise from the interactions between an entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. Information about GHG emissions is relevant to investors' understanding of how interactions throughout the entity's value chain expose the entity to transition risk associated with GHG emissions, including:

- direct GHG emissions that occur from sources that are owned or controlled by an entity (Scope 1); and
- indirect GHG emissions, including GHG emissions:
    - o that arise from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity (Scope 2); and
    - o that occur in the value chain of an entity not included in Scope 2 GHG emissions, including both upstream and downstream GHG emissions (Scope 3).

IFRS S2 requires an entity to disclose all scopes of GHG emissions—that is, Scope 1, Scope 2 and Scope 3. These disclosure requirements are subject to materiality (as is the case for all disclosures when applying ISSB Standards). Requiring the disclosure of all scopes of GHG emissions enables relevant information to be provided about an entity's exposure to transition risk irrespective of:

- *its organisational structure*—for example, two entities operating in the same industry might be exposed to the same level of transition risk. However, due to differences in the structures of the entities' operations, the largest portion of GHG emissions-generating activities might be in Scope 1 and Scope 2 GHG emissions for one entity and in Scope 3 GHG emissions for the other entity. Requiring entities to disclose all scopes of GHG emissions ensures that primary users receive comparable information about the transition risk for both entities—despite the different structures of the entities' operations.

- *the approach it uses to measure its GHG emissions*—for example, if an entity selects the operational control approach under the GHG Protocol Corporate Standard, its GHG emissions would be classified differently between the scopes compared to how its GHG emissions would be classified if the entity chose the financial control approach. By including all three scopes of GHG emissions, the requirements help an entity to provide comparable information regardless of its chosen measurement approach.
- *the industry in which it operates*—for example, the transition risks that a commercial bank in the financial services sector is exposed to might primarily arise from risks related to GHG emissions in its loan portfolio (Scope 3) instead of from its direct GHG emissions (Scope 1). However, for an entity operating in another industry, transition risk might primarily arise from risks related to GHG emissions classified as Scope 1. By including all three scopes of GHG emissions, the requirements ensure that primary users have the necessary information related to transition risk for all industries.

Therefore, it is necessary for an entity to disclose material information about GHG emissions, including Scope 3 GHG emissions, to provide investors with complete and comparable information about the entity's associated transition risks.

Question 2: Which GHG Protocol Standards are referenced in IFRS S2 and for what purpose?

IFRS S2 references two GHG Protocol Standards:

- *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (2004) (GHG Protocol Corporate Standard); and
- *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (2011) (GHG Protocol Corporate Value Chain Standard).

The GHG Protocol Corporate Standard is referenced in relation to requirements to disclose Scope 1, Scope 2 and Scope 3 GHG emissions. The GHG Protocol Corporate Value Chain Standard is referenced in relation to requirements to disclose Scope 3 GHG emissions.

GHG Protocol Corporate Standard—Measurement

The GHG Protocol Corporate Standard is referenced in IFRS S2 for the measurement of GHG emissions, including the characterisation of the sources of GHG emissions as Scope 1, Scope 2 or Scope 3. Using a single reference provides entities with a common basis for measurement.[1] This supports the provision of decision-useful information for investors because it improves the comparability of entities' disclosures.

IFRS S2 requires an entity to disclose its absolute gross GHG emissions generated during the reporting period. The entity is required to measure these GHG emissions in accordance with the GHG Protocol Corporate Standard (paragraph 29(a)(i)–(ii) of IFRS S2). For the avoidance of doubt, IFRS S2 requires an entity to apply the requirements in the GHG Protocol Corporate Standard only to the extent that they do not conflict with the requirements in IFRS S2 (paragraph B23 of IFRS S2). This requirement on avoiding conflict is particularly important because IFRS S2 includes some requirements related to the measurement of GHG emissions.

1 An entity is required to measure its GHG emissions in accordance with the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (2004) (GHG Protocol Corporate Standard) unless a jurisdictional authority or exchange on which an entity is listed requires the use of a different basis for measurement of GHG emissions (see paragraph 29(a)(ii) of IFRS S2 *Climate-related Disclosures*, which provides this jurisdictional relief).

The GHG Protocol Corporate Standard includes requirements and guidance beyond the measurement of GHG emissions. However, IFRS S2 does not reference the GHG Protocol Corporate Standard's requirements beyond measurement.

For example, an entity applying IFRS S2 is not required to disclose 'emissions data for direct CO_2 emissions from biologically sequestered carbon (for example, CO_2 from burning biomass/biofuels)' separately from the scopes of GHG emissions—even though this disclosure is required in the GHG Protocol Corporate Standard.

GHG Protocol Corporate Value Chain Standard—Definition

The GHG Protocol Corporate Value Chain Standard is referenced in IFRS S2:

- as part of the definition of Scope 3 GHG emissions;[2] and
- as part of the requirement for an entity to disclose the Scope 3 categories that are included in its measure of Scope 3 GHG emissions.

IFRS S2 does not reference the GHG Protocol Corporate Value Chain Standard in relation to measurement in the way it references the GHG Protocol Corporate Standard.

The inclusion of the categories from the GHG Protocol Corporate Value Chain Standard in the IFRS S2 definition of Scope 3 means that an entity is required to consider all 15 of the categories in measuring and classifying its Scope 3 GHG emissions. In doing so, the entity determines which categories are relevant to its business model and therefore included in its disclosure of Scope 3 GHG emissions (paragraph B32 of IFRS S2) (see Question 4 for a discussion of determining relevance).

The entity is also required to provide information about the categories included in the entity's measure of its GHG emissions (paragraphs 29(a)(vi)(1) and B32 of IFRS S2).

The requirements related to the use of the GHG Protocol Corporate Value Chain Standard also apply to an entity using the jurisdictional relief that is available when a jurisdictional authority or exchange on which an entity is listed requires the use of a different basis for measurement of GHG emissions (jurisdictional relief). The jurisdictional relief permits an entity to use a method other than the GHG Protocol Corporate Standard but does not relieve the entity from using the GHG Protocol Corporate Value Chain Standard as specified in IFRS S2.

2 This includes a reference to the GHG Protocol Corporate Value Chain Standard within the definition of financed emissions that explains that financed emissions form part of Category 15—investments and also as part of the definition of the Scope 3 categories.

DISCLOSURE REQUIREMENTS

Question 3: Is an entity required to disclose GHG emissions generated during the reporting period on a gross basis?

Yes, IFRS S2 requires an entity to disclose its absolute gross GHG emissions generated during the reporting period. The use of the word 'gross' means the entity measures its GHG emissions without taking into consideration any removal efforts (for example, through the use of carbon credits).[3] The word 'absolute' means the entity discloses the total amount of GHG emissions instead of, for example, GHG emissions intensity.[4]

Refer to Question 12 for information about disclosure requirements related to GHG emissions targets, including the information required to be disclosed based on whether an entity's GHG emissions target is gross or net.

Question 4: Is an entity required to include all 15 categories in the GHG Protocol Corporate Value Chain Standard in its measure of its Scope 3 GHG emissions?

No, but an entity is required to consider all 15 categories of Scope 3 GHG emissions, as described in the GHG Protocol Corporate Value Chain Standard, and to determine which categories are relevant. IFRS S2 defines Scope 3 GHG emissions as:

> Indirect greenhouse gas emissions (not included in Scope 2 greenhouse gas emissions) that occur in the value chain of an entity, including both upstream and downstream emissions. *Scope 3 greenhouse gas emissions include the Scope 3 categories in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)* [emphasis added].

An entity is required to include the GHG emissions associated with each relevant category in its Scope 3 GHG emissions if this disclosure would provide primary users with material information. As a result, the categories that are included in an entity's measure of its Scope 3 GHG emissions and the particular GHG emissions within a category that are included within the measurement depend on the entity's specific facts and circumstances.

The GHG Protocol Corporate Value Chain Standard provides a list of the Scope 3 categories and describes each category (these categories are also listed in Appendix A of IFRS S2). To determine which categories are relevant, an entity is required to consider its entire value chain, both upstream and downstream. Although an entity is required to consider the relevance of all 15 categories—including by considering whether information about the GHG emissions within those categories and their measurement would provide material information about an entity's exposure to transition risk—it might find that not all are relevant. In this case, the entity might exclude some categories

3 IFRS S2 defines carbon credit as an emissions unit that is issued by a carbon crediting programme and represents an emission reduction or removal of greenhouse gases. Carbon credits are uniquely serialised, issued, tracked and cancelled by means of an electronic registry.

4 Paragraph BC83 of the *Basis for Conclusions on IFRS S2.*

from the measurement of its Scope 3 GHG emissions. For example, Category 12—end-of-life treatment of sold products would likely be:

- relevant for an automobile manufacturing company that sells vehicles to end-consumers; and
- not relevant for a services company, such as a digital advertising company that does not sell any products.

In considering whether GHG emissions information about those categories is material, the entity assesses whether omitting, misstating or obscuring the specific GHG emissions information related to the category could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports.

IFRS S2 requires an entity to disclose the categories included within the entity's measure of its Scope 3 GHG emissions (paragraph 29(a)(vi)(1) of IFRS S2).[5] This disclosure helps primary users understand the sources of an entity's Scope 3 GHG emissions as part of information about an entity's exposure to transition risk.

Question 5: Is an entity permitted to limit its measurement and disclosure of Scope 3 GHG emissions for each relevant category on the basis of the minimum boundaries provided by the GHG Protocol Corporate Value Chain Standard?

No, IFRS S2 requires that entities disclose material information about their Scope 3 GHG emissions considering all of the categories set out in the GHG Protocol Corporate Value Chain Standard. ISSB Standards also require that entities consider their entire value chain when providing information about the sustainability-related risks and opportunities that could reasonably be expected to affect their prospects.[6] This means that an entity applying IFRS S2 cannot limit its measurement and disclosure of Scope 3 GHG emissions on the basis of the minimum boundaries outlined in the GHG Protocol Corporate Value Chain Standard.

As explained in Question 4, an entity is required to consider its *entire value chain* and consider all 15 categories of Scope 3 GHG emissions—as described in the GHG Protocol Corporate Value Chain Standard—in measuring the entity's Scope 3 GHG emissions. In considering the relevant categories, an entity refers to the category descriptions and the activities in each description. For example, the GHG Protocol Corporate Value Chain Standard describes Category 5—waste generated in operations as 'Disposal and treatment of waste generated in the reporting company's operations in the reporting year (in facilities not owned or controlled by the reporting company)'.[7] Separate from this description, the GHG Protocol Corporate Value Chain Standard states that the minimum boundary is 'the scope 1 and scope 2 emissions of waste management suppliers that occur during disposal or treatment'.[8] Because ISSB Standards require an entity to consider

5 Note that this disclosure requires disclosure of the categories. An entity is not required to disaggregate GHG emissions by the amount classified into each category. However, paragraphs B29–B30 of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* explain that it may be necessary to disaggregate information, which might result in the need to disclose information about one or more categories.

6 IFRS S1 requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect its cash flows, access to finance or cost of capital over the short, medium or long term. These risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

7 Table [5.4] Description and boundaries of scope 3 categories, second column 'Category description', page 35 of the GHG Protocol Corporate Value Chain Standard.

8 Table [5.4] Description and boundaries of scope 3 categories, third column 'Minimum boundary', page 35 of the GHG Protocol Corporate Value Chain Standard.

its *entire* value chain, an entity cannot limit the GHG emissions considered to the Scope 1 and Scope 2 GHG emissions of waste management suppliers that occur during disposal or treatment on the basis of the minimum boundaries outlined in the GHG Protocol Corporate Value Chain Standard. Instead, an entity determines what GHG emissions of waste management suppliers to include in its measurement of Category 5 by:

- determining the scope of its value chain, including its breadth and composition, using all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort;[9] and
- considering the materiality of the information the entity would provide about GHG emissions related to the activities in each category.

MEASUREMENT REQUIREMENTS

Question 6: Is there a conflict between the requirement in IFRS S1 to provide information about the reporting entity and the organisational boundary determined in accordance with the GHG Protocol Corporate Standard?

No, the concept of the reporting entity and the identification of the organisational boundary for the measurement of GHG emissions serve distinct purposes. IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* specifies the reporting entity as the entity about which information is required to be provided and is a conceptual foundation of applying the ISSB Standards. This requirement ensures that there is connectivity between the entity reporting using the ISSB Standards and the entity reflected in the related financial statements.

The determination of the organisational boundary—as required by the GHG Protocol Corporate Standard—is used in measuring the GHG emissions of the reporting entity. The organisational boundary affects which operations' direct GHG emissions are included in the measurement of a reporting entity's Scope 1 GHG emissions, and how GHG emissions of the reporting entity are classified between scopes.

The reporting entity

IFRS S1 requires an entity's sustainability-related financial disclosures to be for the same reporting entity as the related financial statements (paragraph 20 of IFRS S1). For example, a parent prepares consolidated financial statements in accordance with IFRS Accounting Standards, which results in the composition of the reporting entity including the parent and its subsidiaries. In such a case, both the sustainability-related financial disclosures and the financial statements provide information about the parent and its subsidiaries as a group. Therefore, for the purposes of applying ISSB Standards, the reporting entity is the same reporting entity determined by applying the relevant generally accepted accounting principles or practices (GAAP) to the entity's related financial statements—for example, IFRS Accounting Standards or US GAAP.

9 Paragraph B36 of IFRS S2 states that, in accordance with paragraph B6(b) of IFRS S1, to determine the scope of the value chain, which includes its breadth and composition, an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort.

If an entity prepares sustainability-related financial disclosures that accompany *consolidated* financial statements, this means that the information provided about climate-related risks and opportunities must be about climate-related risks and opportunities that could reasonably be expected to affect the prospects *of the group* (that is, the parent and its subsidiaries). In contrast, if the sustainability-related financial disclosures accompany *parent-only* financial statements, the information provided (including information about GHG emissions) must be about climate-related risks and opportunities that could reasonably be expected to affect the prospects *of the parent*. In both cases, the group or the parent respectively considers the climate-related risks and opportunities that arise in their value chains.

The organisational boundary

IFRS S2 requires an entity to use the GHG Protocol Corporate Standard to measure GHG emissions except in limited circumstances.[10] In measuring GHG emissions in accordance with the GHG Protocol Corporate Standard, IFRS S2 requires an entity to select either the equity share approach or the control approach. The GHG Protocol Corporate Standard refers to these approaches as 'consolidation approaches' and IFRS S2 refers to these approaches as 'measurement approaches'.[11]

The GHG Protocol Corporate Standard uses the term 'consolidation' differently from GAAP:

- In GAAP, 'consolidation' is used to describe the process of identifying the reporting entity.
- In the GHG Protocol Corporate Standard, 'consolidation' is defined as 'combination of GHG emissions data from separate operations that form part of one company or group of companies'.[12]

The GHG Protocol Corporate Standard defines organisational boundaries as 'the boundaries that determine the operations owned or controlled by the reporting company, depending on the consolidation approach taken (equity or control approach).'[13] As mentioned earlier, an entity uses its selected measurement approach to determine the organisational boundary. In effect, this determines how GHG emissions are measured, including determining the GHG emissions that are considered to be directly associated with the entity as Scope 1 GHG emissions and those that are considered to be indirectly associated with the entity. Indirect GHG emissions are included in Scope 2 or Scope 3, depending on the emission source.

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10 Paragraph 29(a)(ii) of IFRS S2 states that an entity shall measure its GHG emissions in accordance with the GHG Protocol Corporate Standard unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its GHG emissions. Furthermore, paragraph C4(a) of IFRS S2 includes a relief for the first annual reporting period an entity applies IFRS S2. This relief allows an entity to continue to use its existing measurement method (the methodology used in the annual reporting period immediately preceding the date of initial application of IFRS S2) for measuring its GHG emissions.

11 Paragraph B27 of IFRS S2. These questions use the term 'measurement approach', consistent with IFRS S2.

12 GHG Protocol Corporate Standard, page 97.

13 GHG Protocol Corporate Standard, page 100.

Disclosure requirements

An entity's choice of measurement approach can result in its GHG emissions being measured and classified differently. Therefore, paragraph B27 of IFRS S2 requires an entity to disclose the approach it selects and the reason for its choice of measurement approach when the GHG Protocol Corporate Standard is applied. The entity is also required to disclose how its choice of approach relates to the disclosure objective in paragraph 27 in IFRS S2.

An entity is required to disclose information to enable primary users to understand differences between entities. Paragraph 29(a)(iv) of IFRS S2 requires an entity to disaggregate its Scope 1 and Scope 2 GHG emissions that relate to:

- the consolidated accounting group; and
- other investees excluded from the consolidated accounting group.

Because IFRS S2 permits an entity to select a measurement approach in measuring its GHG emissions, this disclosure requirement assists with comparability. For example, two entities with identical investments in other entities could report different GHG emissions in relation to those investments simply because of choices made in applying the GHG Protocol Corporate Standard. The disaggregation would help primary users understand that difference.

Refer to Appendix A for examples that illustrate how the measurement approach selected by a reporting entity in different fact patterns impacts its GHG emissions and related disclosures.

Question 7: What is the Scope 3 measurement framework in IFRS S2 and how does it help entities measure their Scope 3 GHG emissions?

The Scope 3 measurement framework was developed by the ISSB. It was included in IFRS S2 to provide additional support and clarity for entities measuring Scope 3 GHG emissions. This framework requires entities to prioritise inputs and assumptions using specified characteristics to enable them to faithfully represent their Scope 3 GHG emissions. The Scope 3 measurement framework is helpful because an entity's measurement of Scope 3 GHG emissions is likely to include the use of estimation instead of being solely based on direct measurement.

The Scope 3 measurement framework must be used by all entities applying IFRS S2 as required by paragraph B40.[14] It requires an entity to prioritise inputs and assumptions using these identifying characteristics (listed in no particular order):

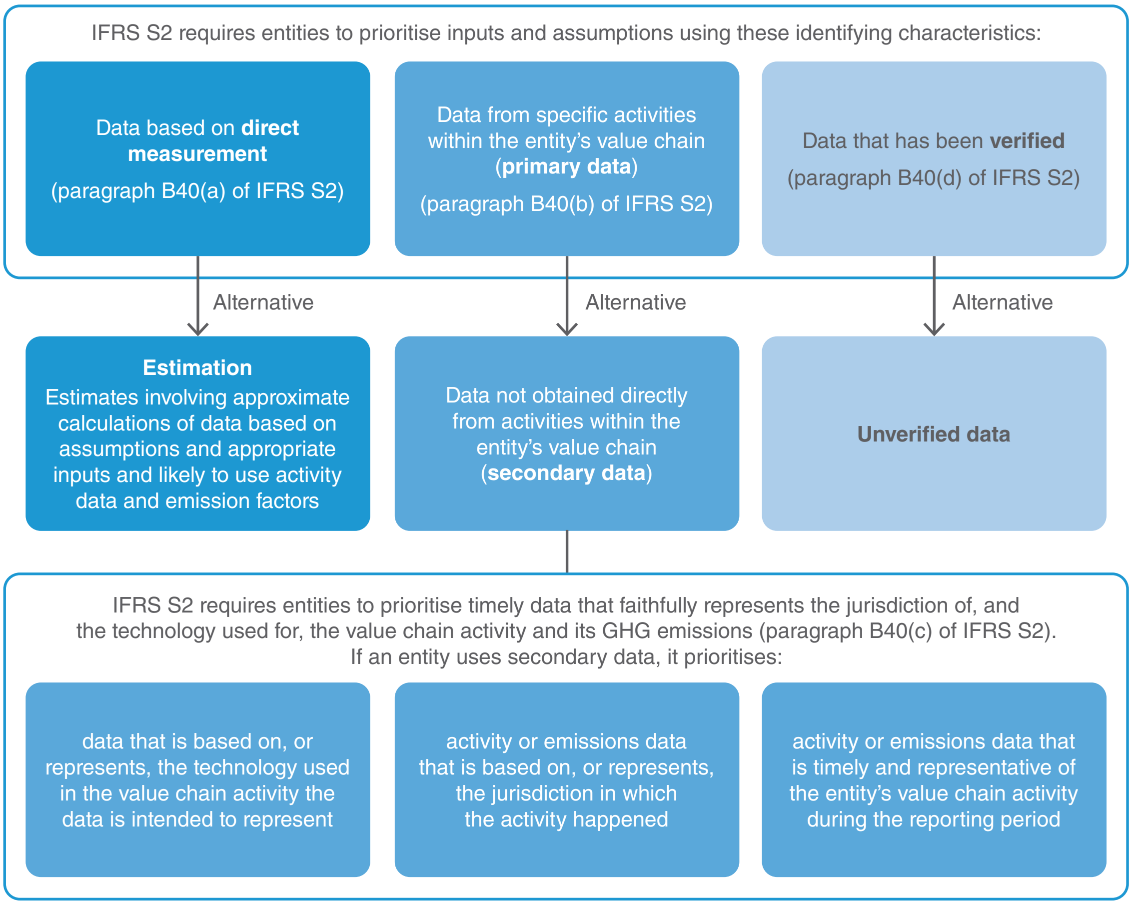
- data based on direct measurement;
- data from specific activities within the entity's value chain;
- timely data that faithfully represents the jurisdiction of, and the technology used for, the value chain activity and its GHG emissions; and
- data that has been verified.

14 This means the Scope 3 measurement framework also applies to entities using the jurisdictional relief and applying a measurement method other than the GHG Protocol Corporate Standard to measure GHG emissions.

Figure 1 illustrates this prioritisation:

- The top row sets out three of the identifying characteristics that are required to be prioritised.
- The middle row reflects what an entity considers if it is unable to prioritise the identifying characteristics set out in the top row. For example, if the entity is unable to directly measure Scope 3 GHG emissions, it is expected to use estimation.
- The bottom row sets out the identifying characteristics that an entity is required to prioritise if it is unable to use primary data and therefore uses secondary data.

Figure 1—Prioritisation of Scope 3 measurement framework identifying characteristics



An entity's prioritisation of the measurement approach, inputs and assumptions and its consideration of associated trade-offs based on these characteristics require management to apply judgement. For example, an entity might need to consider the trade-offs between:

- timely data and data that is more representative of the jurisdiction and technology used for the value chain activity and its GHG emissions. More recent data might provide less detail about the specific activity, including the technology that was used in the value chain and the location of that activity. On the other hand, older data that is published infrequently might be considered more representative of the specific activity and its GHG emissions.
- primary data that is unverified and secondary data that is verified. For example, when considering the range of reasonable and supportable emission factors that are available to the entity to measure the Scope 3 GHG emissions of a purchased good (Category 1), the entity considers two data points:
    - *primary data*—the supplier of the goods calculates and provides the product-level cradle-to-gate emission factor that is specific to the particular purchased goods. The emission factor is based on the specific activities in the supply chain and uses data from the year in which the goods were produced. However, the supplier has not obtained assurance over the emission factor.
    - *verified data*—the entity obtains the industry-average emission factor from an industry association that has been verified by independent assurance providers. However, the cradle-to-gate emission factor is not specific to the entity's supplier and is based on national data instead of regional or local data.

Disclosure requirements

As part of the requirement to disclose the approach an entity uses to measure its GHG emissions, IFRS S2 requires specific information to be provided about how the entity prioritises data in accordance with the Scope 3 measurement framework. Specifically, paragraphs B55–B57 require the entity to disclose information that enables users of general purpose financial reports to understand:

- the extent to which the entity's Scope 3 GHG emissions are measured using inputs from specific activities within the entity's value chain; and
- the extent to which the entity's Scope 3 GHG emissions are measured using inputs that are verified.

The purpose of this disclosure is to provide users of general purpose financial reports with information about how the entity has prioritised the highest-quality data available, which faithfully represents the value chain activity and its Scope 3 GHG emissions.

Question 8: How does the use of the proportionality mechanism—'use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort'—affect the requirements related to the Scope 3 measurement framework?

IFRS S1 requires an entity to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort when it selects the measurement approach, inputs and assumptions it uses in measuring Scope 3 GHG emissions (paragraph B39 of IFRS S2). When an entity selects the measurement approach, inputs and assumptions, it uses the Scope 3 measurement framework.

When prioritising inputs and assumptions based on the Scope 3 measurement framework, one of the factors the entity considers is availability of data (that is reasonable, supportable and available without undue cost or effort). Preparers are likely to face challenges in measuring Scope 3 GHG emissions related to data availability, quality and the associated cost of data collection. Therefore, this proportionality mechanism provides guidance to help preparers determine the data they are required to collect. This mechanism helps entities because it creates parameters for identifying the type of information that is reasonably available and the effort required to prepare the disclosures. The Scope 3 measurement framework meanwhile provides guidance about prioritising the inputs, based on their characteristics.

For example, an entity might not be able to obtain GHG emissions data that is from the current period without undue cost or effort. The entity could use data from a previous reporting period as a basis for estimating amounts for the current period, if this represents the use of reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort.

Question 9: What should an entity do if GHG emissions data from entities in its value chain is not readily available because those entities have different reporting periods?

If an entity has a different reporting period from entities in its value chain, the entity might find it difficult to collect information about GHG emissions that aligns with the timing of its reporting. For example, Entity A has a calendar year-end reporting period and Entity B, an entity in its value chain from which it is collecting GHG emissions information, has a reporting period ending 30 September. The question arises whether Entity A can use GHG emissions information from Entity B for the year ending 30 September when providing its annual sustainability-related financial disclosures applying IFRS S2. In such circumstances, paragraph B19 of IFRS S2 permits an entity to measure its GHG emissions using information for reporting periods that are different from its own reporting period if:

- the entity uses the most recent data available from those entities in its value chain without undue cost or effort to measure and disclose the entity's GHG emissions;
- the length of the reporting periods is the same; and
- the entity discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reports.

In this fact pattern, Entity A could use the GHG emissions information from Entity B for the year ending 30 September for Entity A's reporting for the year ending 31 December if:

- that data is the most recent data available from Entity B without undue cost or effort; and
- it discloses the effects of any significant events and changes relevant to Entity B's GHG emissions between 1 October and 31 December (if material).

Question 10: How should an entity that participates in commercial banking activities measure absolute gross financed emissions for undrawn loan commitments?

IFRS S2 does not prescribe any specific methodology for an entity to use in calculating Scope 3 Category 15 financed emissions, including those related to undrawn loans. IFRS S2 requires an entity measuring its GHG emissions:

- to measure its GHG emissions in accordance with the GHG Protocol Corporate Standard unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its GHG emissions (paragraph 29(a)(ii) of IFRS S2);
- to consider the category descriptions in the GHG Protocol Corporate Value Chain Standard in measuring the entity's Scope 3 GHG emissions; and
- to use the Scope 3 measurement framework (paragraph B38–B57 of IFRS S2).

Disclosure requirements

Although IFRS S2 does not require an entity to use any specific measurement methodology to measure the entity's financed emissions, paragraphs B58–B63 of IFRS S2 require an entity to disclose additional information about its financed emissions, including the methodology used. IFRS S2 also requires that the measurement approach taken provides a faithful representation of the entity's Scope 3 GHG emissions.

An entity applies these disclosure requirements alongside the requirement to disclose other information about financed emissions, including:

- the categories included within the entity's measurement of Scope 3 GHG emissions, in accordance with the Scope 3 categories described in the GHG Protocol Corporate Value Chain Standard (paragraph 29(a)(vi)(1));
- additional information about the entity's financed emissions, if the entity's activities include asset management, commercial banking or insurance (paragraphs 29(a)(vi)(2) and B58–B63); and
- the measurement approach, inputs and assumptions the entity uses to measure its GHG emissions (paragraph 29(a)(iii)(1)).

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The disclosure requirements—including the requirement for an entity to disclose its measurement approach—are intended to aid primary users' understanding and to enhance consistency and comparability of the information disclosed about financed emissions while allowing for innovation. The requirements are also intended to enable the market to converge on measurement methodologies for different asset classes as the methodologies emerge and gain acceptance. The requirements support the use of different measurement approaches while also providing 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.

OTHER GHG EMISSIONS DISCLOSURE REQUIREMENTS

Question 11: Does IFRS S2 require entities to set GHG emissions targets?

No, IFRS S2 does not require entities to set GHG emissions targets. However, IFRS S2 requires an entity to disclose information about any GHG emissions targets the entity has set.

If an entity has GHG emissions targets, or any other climate-related targets, IFRS S2 (paragraphs 33–37) requires the entity to disclose information about those targets, including:

- the quantitative or qualitative climate-related targets it has set, and any target the entity is required to meet by law or regulation (specific information is required for each target);
- the entity's approach to setting and reviewing targets, and how it monitors progress against each target;
- the entity's performance against each climate-related target and an analysis of trends or changes in that performance;
- which greenhouse gases are covered by each GHG emissions target; whether the target covers Scope 1, Scope 2 or Scope 3; whether the target is a gross GHG emissions target or a net GHG emissions target; and whether the target was derived using a sectoral decarbonisation approach; and
- any planned use of carbon credits to offset GHG emissions.

Question 12: Is an entity required to disclose any specific information if it has a net GHG emissions target?

IFRS S2 requires an entity that has a GHG emissions target to disclose whether the target is a gross GHG emissions target or a net GHG emissions target. If an entity has a net GHG emissions target, the entity is also required to separately disclose its associated gross GHG emissions target (paragraph 36(a) of IFRS S2). Net GHG emissions targets are the entity's targeted gross GHG emissions minus any planned offsetting efforts (for example, the entity's planned use of carbon credits to offset its GHG emissions).[15] The requirement for an entity to separately provide the associated gross GHG emissions targets when it has a net GHG emissions target enables primary users of general purpose financial reports to understand the entity's efforts to reduce its gross GHG emissions and its net GHG emissions.[16]

If an entity sets net GHG emissions targets and plans to use carbon credits to achieve the target, the entity is required to disclose additional information about the use of carbon credits. This information is designed to provide transparency about the entity's planned use of carbon credits and information about those carbon credits. Specifically, the requirements in paragraph 36(e) in IFRS S2 are designed to enable a primary user to understand the entity's plan for reducing its GHG emissions, whether and how the entity plans to use carbon credits and the quality of those credits. This required disclosure includes information about:

- the reliance of an entity's GHG emissions target on carbon credits.
- the scheme from which the entity obtains the credits. This information is useful to primary users because additional climate-related risks and opportunities arise from uncertainty about the suitability of some schemes, the available technology and the future prices of carbon credits.
- the type of carbon credits, including whether the underlying offset will be nature-based or based on technological carbon removals. Information about the method associated with the carbon credits is useful to primary users because different risks and opportunities are associated with different types of carbon credits. This information assists primary users in understanding an entity's risk profile.

IFRS S2 also requires an entity to disclose any other factors necessary for primary users to understand the credibility and integrity of the carbon credits the entity plans to use, including, for example, information about assumptions regarding the permanence of the carbon offset. This disclosure requirement was included in response to stakeholders identifying 'permanence' and 'additionality' as two essential features for assessing the quality of carbon offset schemes. 'Permanence' refers to how long the GHG emissions will be safely removed from the atmosphere. 'Additionality' refers to whether a particular investment has brought about any new climate benefits that would not have occurred without the investment. Although these metrics can be useful, assessing permanence and additionality is complex. Therefore, IFRS S2 does not require an entity to disclose its assessment of permanence and additionality. Instead, the entity is required to disclose information about any other factors necessary for users of general purpose financial reports to understand the credibility and integrity of the credits the entity plans to use. This requirement was included to provide users with information that enables them to assess additionality and permanence.

15 Gross GHG emissions targets reflect the total changes in GHG emissions planned in an entity's value chain.

16 If an entity discloses a net GHG emissions target, this target cannot obscure information about the entity's gross GHG emissions targets.

Question 13: Is an entity required to adjust its disclosure of comparative GHG emissions information if the composition of the reporting entity changes, for example because of an acquisition or a disposal of a subsidiary?

No, IFRS S2 does not require an entity to adjust comparative GHG emissions information for changes in the composition of the reporting entity such as an acquisition or disposal of a subsidiary.

IFRS S1 requires an entity to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period (paragraph 70 of IFRS S1). Sustainability-related financial disclosures provide information about the *reporting entity's* sustainability-related risks and opportunities. The definition of reporting entity establishes 'what' the disclosure requirements apply to, and what information is required to be provided. IFRS S1 requires that the sustainability-related financial disclosures be for the same reporting entity as the related financial statements (paragraph 20 of IFRS S1). Therefore, the requirements related to comparative information are bound by the composition of the reporting entity in the related financial statements in the comparative period.

If there has been a change to the composition of the reporting entity, such as an acquisition or disposal, the comparative GHG emissions information provided will be GHG emissions information about the reporting entity on the basis of the composition of the reporting entity in the related financial statements. For example:

- the GHG emissions of a subsidiary newly acquired in the current reporting period will not be included in GHG emissions information in the comparative information, because the subsidiary was not part of the reporting entity in the related financial statements in the comparative period.[17]
- the GHG emissions of a subsidiary disposed of in the current reporting period will be included in GHG emissions information in the comparative information, because that subsidiary was part of the reporting entity of the related financial statements in the comparative period.

As outlined in Question 2, the GHG Protocol Corporate Standard is used to measure what is required to be disclosed by ISSB Standards. Therefore, the requirements in ISSB Standards (not the GHG Protocol Standards) about the reporting entity and comparative information determine what is required to be disclosed related to changes in the composition of the reporting entity.

Although an entity is not required to adjust comparative GHG emissions information as a result of changes in the composition of the reporting entity, such as an acquisition or disposal of a subsidiary, an entity might need to provide additional information about the effect of the acquisition or disposal of a subsidiary. This might be the case if an entity considers that compliance with the specifically applicable requirements in ISSB Standards is insufficient to enable primary users to understand the effects of climate-related risks and opportunities on the entity's prospects, in accordance with paragraph B26 of IFRS S1, and that additional information is material.

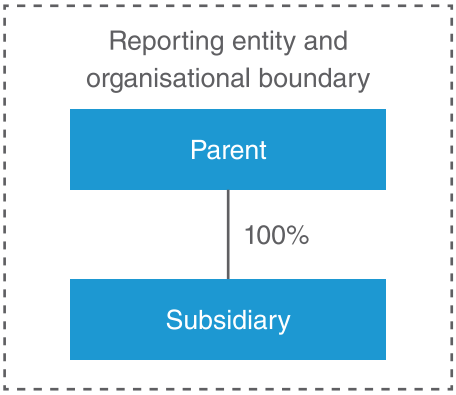
17 This example assumes the newly acquired subsidiary was not part of the value chain in the preceding period. In a circumstance in which the subsidiary was part of the value chain in the preceding period, for example because the subsidiary had a business relationship with the reporting entity, relevant information reflecting sustainability-related risks and opportunities arising from that business relationship would be included in the comparative information, including relevant GHG emissions applying the requirements in IFRS S2.

APPENDIX A

The examples in this appendix have been provided to illustrate the concepts described in Question 6. The examples describe the composition of the reporting entity and the organisational boundary under different fact patterns and illustrate the related disclosures.

Example 1 describes the composition of the reporting entity in a scenario in which a parent has a 100% interest in a subsidiary and neither the parent nor the subsidiary has any ownership interests in other entities. Examples 2A and 2B describe the composition of the reporting entity in which a parent has a 100% interest in a subsidiary and a 20% interest in an associate.

Example 1—A parent with a 100% interest in a subsidiary and no other investees



The reporting entity is the group. The group includes the parent and the subsidiary in accordance with applicable GAAP.

The reporting entity decides to use the operational control approach in accordance with the GHG Protocol Corporate Standard and determines that the parent has operational control over the subsidiary.

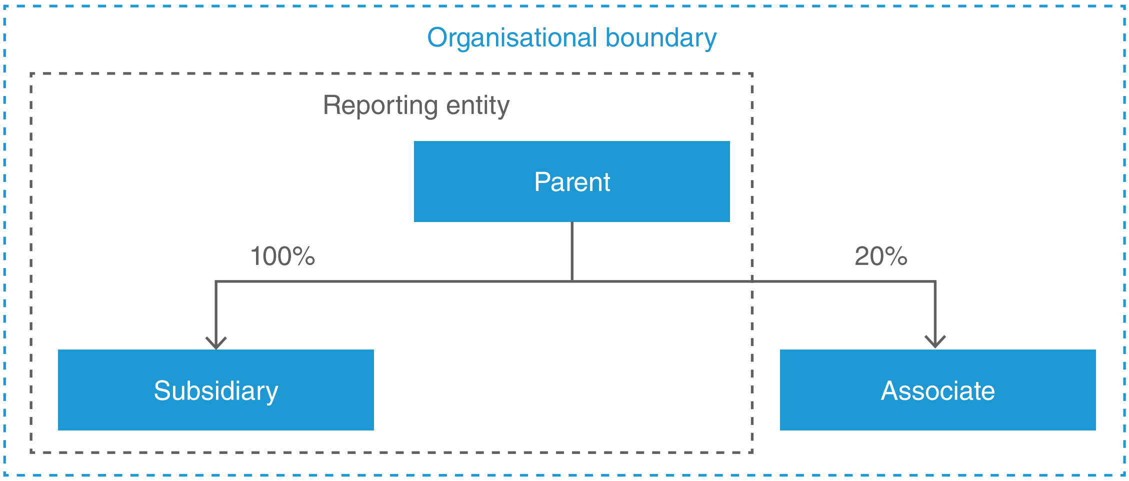
Sustainability-related financial disclosures

The reporting entity's sustainability-related financial disclosures include information about sustainability-related risks and opportunities that affect the entity's prospects, including risks and opportunities that arise from the entity's value chain. Because the reporting entity is the group, the prospects considered are those of the parent and the subsidiary as a single reporting entity. As a result of the application of the operational control approach, the reporting entity includes 100% of the direct (Scope 1) GHG emissions of the parent and subsidiary in the reporting entity's Scope 1 GHG emissions. The reporting entity includes the parent and subsidiary's Scope 2 and Scope 3 GHG emissions in its disclosures of Scope 2 and Scope 3 GHG emissions, respectively.

Because all of the entity's Scope 1 and Scope 2 GHG emissions are from the consolidated accounting group consisting of the parent and subsidiary, and there are no Scope 1 or Scope 2 GHG emissions from investees that are excluded from the consolidated accounting group, the entity would disclose that all Scope 1 and Scope 2 GHG emissions are attributable to the consolidated accounting group (paragraph 29(a)(iv)).

Example 2—A parent with a 100% interest in a subsidiary and a 20% interest in an associate

Example 2A—Entity has operational control over a subsidiary and an associate



The reporting entity is the group. The group includes the parent and the subsidiary in accordance with applicable GAAP.

The reporting entity decides to use the operational control approach in accordance with the GHG Protocol Corporate Standard. The parent determines that it has operational control over both the subsidiary and associate.

Sustainability-related financial disclosures

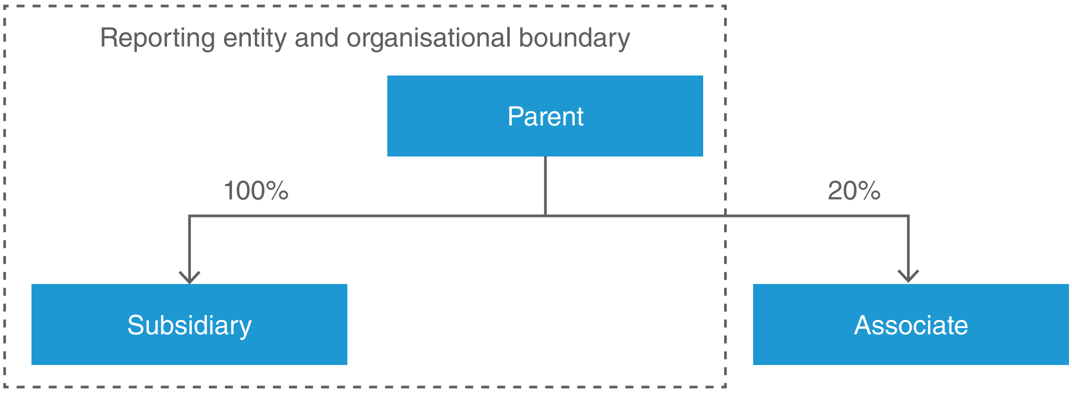
The reporting entity's sustainability-related financial disclosures include information about sustainability-related risks and opportunities that affect the entity's prospects, including risks and opportunities that arise from the entity's value chain. Because the reporting entity is the group, the prospects considered are those of the parent and the subsidiary as a single reporting entity that is affected by the value chain, including the associate.

Although the associate is not part of the reporting entity (the group), in accordance with applicable GAAP, the reporting entity includes the parent, subsidiary and associate in its organisational boundary because it determined that it has operational control over the subsidiary and the associate. This means that the Scope 1 and Scope 2 GHG emissions of the parent, subsidiary and associate are included in the reporting entity's Scope 1 and Scope 2 GHG emissions, respectively. The reporting entity includes the Scope 3 GHG emissions of the parent, subsidiary and associate in its Scope 3 measurement.

Applying the disaggregation requirements in accordance with paragraph 29(a)(iv) of IFRS S2, the reporting entity discloses its Scope 1 and Scope 2 GHG emissions disaggregated between:

- *the consolidated accounting group*—this disclosure includes Scope 1 and Scope 2 GHG emissions of the parent and the (consolidated) subsidiary; and
- *other investees excluded from the consolidated accounting group*—this disclosure includes Scope 1 and Scope 2 GHG emissions of the associate.

Example 2B—Entity does not have operational control over an associate



The reporting entity is the group. The group includes the parent and the subsidiary in accordance with applicable GAAP.

The reporting entity decides to use the operational control approach in accordance with the GHG Protocol Corporate Standard. The parent determines that it has operational control over the subsidiary and does not have operational control over the associate.

Sustainability-related financial disclosures

The reporting entity's sustainability-related financial disclosures include information about sustainability-related risks and opportunities that affect the entity's prospects, including those that arise from the entity's value chain. Because the reporting entity is the group, the prospects considered are those of the parent and the subsidiary as a single reporting entity that is affected by the value chain, including the associate.

The associate is not part of the reporting entity (the group) in accordance with applicable GAAP, nor does it fall within the organisational boundary in accordance with the GHG Protocol operational control approach.

Because the reporting entity has operational control over the subsidiary, the reporting entity includes the Scope 1 and Scope 2 GHG emissions of the parent and subsidiary in its Scope 1 and Scope 2 GHG emissions measurements, respectively. The reporting entity includes the Scope 3 GHG emissions of the parent and subsidiary in its Scope 3 measurement and considers the associate's GHG emissions that are relevant to include in its measurement of its Scope 3 GHG emissions. These emissions would include, for example, financed emissions related to the reporting entity's investment in the associate.

Because all of the entity's Scope 1 and Scope 2 GHG emissions are from the consolidated accounting group consisting of the parent and subsidiary, and there are no Scope 1 or Scope 2 GHG emissions from investees that are excluded from the consolidated accounting group, the entity would disclose that all Scope 1 and Scope 2 GHG emissions are attributable to the consolidated accounting group (paragraph 29(a)(iv)).

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