



March 2022

# Exposure Draft

IFRS<sup>®</sup> Sustainability Disclosure Standard

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## [Draft] IFRS S2 Climate-related Disclosures

Comments to be received by 29 July 2022



**Exposure Draft**  
**Climate-related Disclosures**

*Comments to be received by 29 July 2022*

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CONTENTS

	<i>from page</i>
INTRODUCTION	5
INVITATION TO COMMENT	8
<b>[DRAFT] IFRS S2 CLIMATE-RELATED DISCLOSURES</b>	
OBJECTIVE	32
SCOPE	32
GOVERNANCE	32
STRATEGY	33
RISK MANAGEMENT	39
METRICS AND TARGETS	40
APPENDICES	44
A Defined terms	44
B Industry-based disclosure requirements ( <i>see separate booklet</i> )	49
C Effective date	57
APPROVAL BY THE ISSB CHAIR AND VICE-CHAIR OF EXPOSURE DRAFT IFRS S2 CLIMATE-RELATED DISCLOSURES PUBLISHED IN MARCH 2022	58
ILLUSTRATIVE GUIDANCE ( <i>see separate booklet</i> )	
BASIS FOR CONCLUSIONS ( <i>see separate booklet</i> )	

[Draft] IFRS S2 *Climate-related Disclosures* is set out in paragraphs 1–24 and Appendices A–C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the [draft] Standard. Definitions of other terms are given in other IFRS Sustainability Disclosure Standards. The [draft] Standard should be read in the context of its objective, the Basis for Conclusions and [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

## Introduction

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### Why is the ISSB publishing the Exposure Draft?

An entity's relationship with the environment has become increasingly important. Climate change presents significant risks for all entities, their activities and their economic sectors. It also creates opportunities for entities focused on climate-change mitigation and adaptation. Entities may be exposed to these risks and opportunities directly, or through third parties such as suppliers and customers beyond their direct operations because of interconnected global value chains.

The Exposure Draft was developed in response to calls from users of general purpose financial reporting for more consistent, complete, comparable and verifiable information, including consistent metrics and standardised qualitative disclosures, to help them assess how climate-related matters and the associated risks and opportunities affect:

- an entity's financial position and financial performance;
- an amount, timing and certainty of the entity's future cash flows over the short, medium and long term and, therefore, the assessment of enterprise value by users of general purpose financial reporting; and
- an entity's strategy and business model.

Climate change affects all economic sectors. However, the degree and type of exposure and the current and anticipated effects of climate-related risks and opportunities on the assessment of enterprise value are likely to vary by sector, industry, geography and entity. In assessing an entity's financial and operating results and future cash flows, users of general purpose financial reporting want insight into the governance, risk management and strategic context in which such results are derived. Users also want to understand an entity's targets for managing climate-related risks and opportunities and the metrics the entity uses to measure progress towards meeting the targets.

The proposals in the Exposure Draft are intended to facilitate the provision of comparable information for global markets. These requirements are designed to enable users of general purpose financial reporting to assess entities' exposure to and management of climate-related risks and opportunities, across markets, to facilitate capital allocation and stewardship decisions.

### A summary of the proposals in the Exposure Draft

The proposals in the Exposure Draft set out the requirements for identifying, measuring and disclosing climate-related risks and opportunities.

The objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities. This information, along with other information provided as part of an entity's general purpose financial reporting, will assist users of the information in assessing the entity's future cash flows, including their amounts, timing and certainty, over the short, medium and long term. This information, together with the value attributed by users to those cash flows, enables their assessment of the entity's enterprise value.

The Exposure Draft is based on the climate-related disclosure prototype published on the IFRS Foundation website in November 2021, developed by the Technical Readiness Working Group (TRWG).<sup>1</sup> The prototype and the Exposure Draft include the recommendations by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and components of the frameworks and standards of international sustainability bodies, as published in a prototype of a climate-related financial disclosure standard in December 2020.<sup>2</sup> Although presented separately, the industry disclosure requirements (Appendix B) are an integral part of the Exposure Draft, forming part of its requirements. The Appendix B disclosure requirements have been derived from SASB Standards.<sup>3</sup>

The Exposure Draft would require an entity to provide information that enables users of general purpose financial reporting to understand:

- governance—the governance processes, controls and procedures an entity uses to monitor and manage climate-related risks and opportunities;
- strategy—the climate-related risks and opportunities that could enhance, threaten or change an entity's business model and strategy over the short, medium and long term, including:
  - whether and how information about climate-related risks and opportunities inform management's strategy and decision-making;
  - the current and the anticipated effects of climate-related risks and opportunities on its business model;
  - the effects of climate-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term;
  - the resilience of its strategy (including its business model) to climate-related risks;
- risk management—how climate-related risks and opportunities are identified, assessed, managed and mitigated by an entity;
- metrics and targets—the metrics and targets used to manage and monitor an entity's performance in relation to climate-related risks and opportunities, including:
  - performance and outcome measures that support the qualitative disclosures across governance, risk management and strategy disclosure requirements; and
  - targets that an entity uses to measure its performance goals related to significant climate-related risks and opportunities.

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1 The Technical Readiness Working Group included the International Accounting Standards Board, the Climate Disclosure Standards Board, the Financial Stability Board's Task Force on Climate-related Financial Disclosures, the Value Reporting Foundation (previously the SASB Foundation and the International Integrated Reporting Council) and the World Economic Forum and its Measuring Stakeholder Capitalism Initiative.

2 [https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value\\_climate-prototype\\_Dec20.pdf](https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf)

3 SASB Standards, a set of 77 industry-specific sustainability accounting standards designed to help entities disclose material, decision-useful information to investors, are a key resource of the Value Reporting Foundation, which is expected to consolidate into the IFRS Foundation by June 2022.

## CLIMATE-RELATED DISCLOSURES

In highlighting the connections between its disclosures in accordance with [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, an entity shall refer to and consider the applicability of the interrelationships among each of these four core elements, including between IFRS Sustainability Disclosure Standards. Disclosures shall be presented in a way that enables users of general purpose financial reporting to understand the interrelationships between those disclosures.

### **Due process provisions applicable to the Exposure Draft**

The urgent need for the International Sustainability Standards Board (ISSB) to deliver its initial Standards has been repeatedly highlighted, including in feedback to the September 2020 consultation on sustainability reporting held by the Trustees of the IFRS Foundation (Trustees) and to the April 2021 Exposure Draft of proposed amendments to the IFRS Foundation *Constitution*. The International Organization of Securities Commissions has also emphasised the urgent need for disclosure standards on climate change. Such urgency can pose significant challenges to standard-setting, which aims to achieve effective outcomes by balancing timely responsiveness to market needs with the rigour of formal due process.

The Trustees recognised the opportunity to use and build upon existing sustainability standards and frameworks, including those developed in accordance with prior due process by the organisations that developed them and that enjoy broad user and preparer support. The main components of the Exposure Draft are based on work that has been subject to extensive public consultation and redeliberation and have since garnered significant market uptake. The Trustees viewed this as a signal that these foundational standards and frameworks help to address the information needs of investors and other capital market participants.

The Trustees noted the need for prompt action and the background to the content of the Exposure Draft. However, they also noted that this does not negate the need for formal due process and exposure by the ISSB. It is important that the ISSB's stakeholders are given the opportunity to provide feedback on the proposals consistent with the IFRS Foundation's inclusive and thorough due process.

To balance the need to advance the work of the ISSB on a timely basis while obtaining input from interested parties, the Trustees decided to grant special powers to the Chair and Vice-Chair of the ISSB to enable timely publication of initial exposure drafts for stakeholder input. The Trustees agreed it would be appropriate that as the ISSB is being established (that is, as a transitional measure) the ISSB Chair and Vice-Chair be provided with the ability to publish exposure drafts of a climate-related disclosure standard and/or a general requirements disclosure standard. This decision is reflected in paragraph 56 of the IFRS Foundation's *Constitution* published in November 2021.

The effect of this provision in the *Constitution* is only to enable the exposure drafts to be published prior to the ISSB being quorate. The exposure drafts are subject to public consultation and will be redeliberated by a quorate ISSB. The ISSB Chair and Vice-Chair's right was made subject to oversight by the Due Process Oversight Committee of the Trustees who were consulted at a meeting convened on 21 March 2022 during which they confirmed that they did not object to the ISSB Chair and Vice-Chair publishing these exposure drafts.



## Next steps

The Chair and Vice-Chair anticipate significant interest from stakeholders on the Exposure Draft and on [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* which has been published at the same time as the Exposure Draft. The ISSB will analyse and consider the comments and feedback it receives and will decide how to proceed.

The ISSB intends to redeliberate the Exposure Draft in the second half of 2022 based on feedback from stakeholders and seeks to issue the resulting IFRS Sustainability Disclosure Standard based on these proposals expeditiously.

## Invitation to comment

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The Chair and Vice-Chair invite comments on the proposals in the Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) address the questions as stated;
- (b) specify the paragraph(s) to which they relate;
- (c) contain a clear rationale;
- (d) identify any wording in the proposals that is difficult to translate; and
- (e) include any alternative the ISSB should consider, if applicable.

The Chair and Vice-Chair are requesting comments only on matters addressed in the Exposure Draft.

**Questions for respondents**

<b>Question 1—Objective of the Exposure Draft</b>	
<p>Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:</p>	
<ul style="list-style-type: none"><li>• to assess the effects of climate-related risks and opportunities on the entity's enterprise value;</li><li>• to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and</li><li>• to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities.</li></ul>	
<p>Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.</p>	
(a)	Do you agree with the objective that has been established for the Exposure Draft? Why or why not?
(b)	Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?
(c)	Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

**Question 2—Governance**

Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management’s role regarding climate-related risks and opportunities.

The Exposure Draft’s proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body’s responsibilities for climate-related risks and opportunities are reflected in the entity’s terms of reference, board mandates and other related policies. The related TCFD’s recommendations are to: describe the board’s oversight of climate-related risks and opportunities and management’s role in assessing and managing climate-related risks and opportunities.

Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

**Question 3—Identification of climate-related risks and opportunities**

Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B).

Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.

- (a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?
- (b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

**Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain**

Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain.

As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.

Paragraphs BC66–BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

- (a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?
- (b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

**Question 5—Transition plans and carbon offsets**

Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.

Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.

An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.

The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.

The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.

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<b>Question 5—Transition plans and carbon offsets</b>	
Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.	
(a)	Do you agree with the proposed disclosure requirements for transition plans? Why or why not?
(b)	Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.
(c)	Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity’s approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?
(d)	Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity’s approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

**Question 6—Current and anticipated effects**

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single-point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate.

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

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<b>Question 6—Current and anticipated effects</b>	
Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.	
(a)	Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?
(b)	Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity’s financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?
(c)	Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity’s financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

**Question 7—Climate resilience**

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:

- what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and
- whether the analysis has been conducted using:
  - climate-related scenario analysis; or
  - an alternative technique.

Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk-management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.

Although scenario analysis is a widely accepted process, its application to climate-related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.

Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.

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**Question 7—Climate resilience**

Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.

The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience.

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate-related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

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<b>Question 7—Climate resilience</b>	
	Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.
(a)	Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity’s strategy? Why or why not? If not, what do you suggest instead and why?
(b)	The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.
(i)	Do you agree with this proposal? Why or why not?
(ii)	Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?
(iii)	Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?
(c)	Do you agree with the proposed disclosures about an entity’s climate-related scenario analysis? Why or why not?
(d)	Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity’s strategy? Why or why not?
(e)	Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity’s strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

**Question 8—Risk management**

An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities.

Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.

Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

**Question 9—Cross-industry metric categories and greenhouse gas emissions**

The Exposure Draft proposes incorporating the TCFD’s concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD’s criteria were considered. These criteria were designed to identify metrics and metric categories that are:

- indicative of basic aspects and drivers of climate-related risks and opportunities;
- useful for understanding how an entity is managing its climate-related risks and opportunities;
- widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and
- important for estimating the financial effects of climate change on entities.

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity’s investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.

To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

- separately Scope 1 and Scope 2 emissions, for:
  - the consolidated accounting group (the parent and its subsidiaries);
  - the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and
- the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).

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<b>Question 9—Cross-industry metric categories and greenhouse gas emissions</b>
<p>The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity’s carbon footprint.</p> <p>Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy-efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity’s entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.</p> <p>For Scope 3 emissions, the Exposure Draft proposes that:</p> <ul style="list-style-type: none"> <li>• an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;</li> <li>• an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;</li> <li>• if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and</li> <li>• if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.</li> </ul> <p>Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes non-mandatory Illustrative Guidance for each cross-industry metric category to guide entities.</p>

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<b>Question 9—Cross-industry metric categories and greenhouse gas emissions</b>	
Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.	
(a)	The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?
(b)	Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.
(c)	Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?
(d)	Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO <sub>2</sub> equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH <sub>4</sub> ) separately from nitrous oxide (NO <sub>2</sub> ))?
(e)	Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: <ul style="list-style-type: none"> <li>(i) the consolidated entity; and</li> <li>(ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?</li> </ul>
(f)	Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?



**Question 10—Targets**

Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity’s targets compare with those prescribed in the latest international agreement on climate change.

The ‘latest international agreement on climate change’ is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement.

Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.

- (a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?
- (b) Do you think the proposed definition of ‘latest international agreement on climate change’ is sufficiently clear? If not, what would you suggest and why?

**Question 11—Industry-based requirements**

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.

- (a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?
- (b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?
- (c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

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<b>Question 11—Industry-based requirements</b>	
Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals for financed or facilitated emissions.	
(d)	Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?
(e)	Do you agree with the industries classified as ‘carbon-related’ in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?
(f)	Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?
(g)	Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?
(h)	Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don’t agree, what methodology would you suggest and why?
(i)	In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

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<b>Question 11—Industry-based requirements</b>	
	<p>Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity’s business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards.</p> <p>The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity’s performance on the topic.</p> <p>Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals related to the industry-based disclosure requirements.</p> <p>While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).</p>
(j)	<p>Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?</p>
(k)	<p>Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.</p>
(l)	<p>In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?</p>

**Question 12—Costs, benefits and likely effects**

Paragraphs BC46–BC48 of the Basis for Conclusions set out the commitment to ensure that implementing the Exposure Draft proposals appropriately balances costs and benefits.

- (a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
- (b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?
- (c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

**Question 13—Verifiability and enforceability**

Paragraphs C21–24 of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* describes verifiability as one of the enhancing qualitative characteristics of sustainability-related financial information. Verifiability helps give investors and creditors confidence that information is complete, neutral and accurate. Verifiable information is more useful to investors and creditors than information that is not verifiable.

Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

**Question 14—Effective date**

Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach.

Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.

[Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* requires entities to disclose all material information about sustainability-related risks and opportunities. It is intended that [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* could take longer to implement.

Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

- (a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*? Why?
- (b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.
- (c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

<p><b>Question 15—Digital reporting</b></p> <p>The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption of sustainability-related financial information, as compared to paper-based consumption, is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S1 <i>General Requirements for Disclosure of Sustainability-related Financial Information</i> Standards are the sources for the Taxonomy.</p> <p>It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.</p> <p>Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?</p>
<p><b>Question 16—Global baseline</b></p> <p>IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.</p> <p>Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?</p>
<p><b>Question 17—Other comments</b></p> <p>Do you have any other comments on the proposals set out in the Exposure Draft?</p>

## How to comment

Please submit your comments electronically:

Survey and comment letter <https://www.ifrs.org/projects/work-plan/climate-related-disclosures/exposure-draft-and-comment-letters/>  
online

Comment letter by email [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at [commentletters@ifrs.org](mailto:commentletters@ifrs.org) before submitting your survey response or letter.

## Deadline

The ISSB will consider all written comments and responses to the survey received by 29 July 2022.



## **[Draft] IFRS S2 *Climate-related Disclosures***

### **Objective**

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- 1 The objective of [draft] IFRS S2 *Climate-related Disclosures* is to require an entity to disclose information about its exposure to significant *climate-related risks and opportunities*, enabling users of an entity's *general purpose financial reporting*:
- (a) to assess the effects of significant climate-related risks and opportunities on the entity's *enterprise value*;
  - (b) to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its significant climate-related risks and opportunities; and
  - (c) to evaluate the entity's ability to adapt its planning, *business model* and operations to significant climate-related risks and opportunities.
- 2 An entity shall apply this [draft] Standard in preparing and disclosing climate-related disclosures in accordance with [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

### **Scope**

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- 3 This [draft] Standard applies to:
- (a) climate-related risks the entity is exposed to, including but not restricted to:
    - (i) *physical risks* from climate change (physical risks); and
    - (ii) risks associated with the transition to a lower-carbon economy (*transition risks*); and
  - (b) climate-related opportunities available to the entity.

### **Governance**

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- 4 The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities.
- 5 To achieve this objective, an entity shall disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and information about management's role in those processes. Specifically, an entity shall disclose:
- (a) the identity of the body or individual within a body responsible for oversight of climate-related risks and opportunities;

## CLIMATE-RELATED DISCLOSURES

- (b) how the body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies;
  - (c) how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities;
  - (d) how and how often the body and its committees (audit, risk or other committees) are informed about climate-related risks and opportunities;
  - (e) how the body and its committees consider climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions, and its risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required;
  - (f) how the body and its committees oversee the setting of targets related to significant climate-related risks and opportunities, and monitor progress towards them (see paragraphs 23–24), including whether and how related performance metrics are included in remuneration policies (see paragraph 21(g)); and
  - (g) a description of management's role in assessing and managing climate-related risks and opportunities, including whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee. The description shall include information about whether dedicated controls and procedures are applied to management of climate-related risks and opportunities and, if so, how they are integrated with other internal functions.
- 6 In preparing disclosures to fulfil the requirements in paragraph 5, an entity shall avoid unnecessary duplication in accordance with [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (see paragraph 78). For example, although an entity shall provide the information required by paragraph 5, when its oversight of sustainability-related risks and opportunities is managed on an integrated basis, providing integrated governance disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication.

### Strategy

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- 7 **The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant climate-related risks and opportunities.**

- 8 To achieve this objective, an entity shall disclose information about:
- (a) the significant climate-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term (see paragraphs 9–11);
  - (b) the effects of significant climate-related risks and opportunities on its business model and *value chain* (see paragraph 12);
  - (c) the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its *transition plans* (see paragraph 13);
  - (d) the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity’s financial planning (see paragraph 14); and
  - (e) the *climate resilience* of its strategy (including its business model) to significant physical risks and significant transition risks (see paragraph 15).

### **Climate-related risks and opportunities**

- 9 An entity shall disclose information that enables users of general purpose financial reporting to understand the significant climate-related risks and opportunities that could reasonably be expected to affect the entity’s business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. Specifically, the entity shall disclose:
- (a) a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term.
  - (b) how it defines short, medium and long term and how these definitions are linked to the entity’s strategic planning horizons and capital allocation plans.
  - (c) whether the risks identified are physical risks or transition risks. For example, acute physical risks could include the increased severity of extreme weather events such as cyclones and floods, and examples of chronic physical risks include rising sea levels or rising mean temperatures. Transition risks could include regulatory, technological, market, legal or reputational risks.
- 10 In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity shall refer to the *disclosure topics* defined in the industry disclosure requirements (Appendix B).

## CLIMATE-RELATED DISCLOSURES

- 11 In preparing disclosures to fulfil the requirements in paragraphs 12–15, an entity shall refer to and consider the applicability of cross-industry metric categories and the industry-based metrics associated with disclosure topics, as described in paragraph 20.
- 12 An entity shall disclose information that enables users of general purpose financial reporting to understand its assessment of the current and anticipated effects of significant climate-related risks and opportunities on its business model. Specifically, an entity shall disclose:
- (a) a description of the current and anticipated effects of significant climate-related risks and opportunities on its value chain; and
  - (b) a description of where in its value chain significant climate-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets, inputs, outputs or distribution channels).

### **Strategy and decision-making**

- 13 An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans. Specifically, an entity shall disclose:
- (a) how it is responding to significant climate-related risks and opportunities including how it plans to achieve any climate-related targets it has set. This shall include:
    - (i) information about current and anticipated changes to its business model, including:
      - (1) about changes the entity is making in strategy and resource allocation to address the risks and opportunities identified in paragraph 12. Examples of these changes include resource allocations resulting from demand or supply changes, or from new business lines; resource allocations arising from business development through capital expenditures or additional expenditure on operations or research and development; and acquisitions and divestments. This information includes plans and critical assumptions for *legacy assets*, including strategies to manage carbon-energy- and water-intensive operations, and to decommission carbon-energy- and water-intensive assets.
      - (2) information about direct adaptation and mitigation efforts it is undertaking (for example, through changes in production processes, workforce adjustments, changes in materials used, product specifications or through introduction of efficiency measures).

- (3) information about indirect adaptation and mitigation efforts it is undertaking (for example, by working with customers and supply chains or use of procurement).
  - (ii) how these plans will be resourced.
- (b) information regarding climate-related targets for these plans including:
  - (i) the processes in place for review of the targets;
  - (ii) the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain;
  - (iii) the intended use of *carbon offsets* in achieving emissions targets. In explaining the intended use of carbon offsets the entity shall disclose information including:
    - (1) the extent to which the targets rely on the use of carbon offsets;
    - (2) whether the offsets will be subject to a third-party offset verification or certification scheme (*certified carbon offset*), and if so, which scheme, or schemes;
    - (3) the type of carbon offset, including whether the offset will be nature-based or based on technological carbon removals and whether the amount intended to be achieved is through carbon removal or emission avoidance; and
    - (4) any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the carbon offset).
- (c) quantitative and qualitative information about the progress of plans disclosed in prior reporting periods in accordance with paragraph 13(a)–(b). Related requirements are provided in paragraph 20.

### **Financial position, financial performance and cash flows**

- 14 An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning. An entity shall disclose quantitative information unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information. When providing quantitative information, an entity can disclose single amounts or a range. Specifically, an entity shall disclose:

## CLIMATE-RELATED DISCLOSURES

- (a) how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows;
- (b) information about the climate-related risks and opportunities identified in paragraph 14(a) for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year;
- (c) how it expects its financial position to change over time, given its strategy to address significant climate-related risks and opportunities, reflecting:
  - (i) its current and committed investment plans and their anticipated effects on its financial position (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements);
  - (ii) its planned sources of funding to implement its strategy;
- (d) how it expects its financial performance to change over time, given its strategy to address significant climate-related risks and opportunities (for example, increased revenue from or costs of products and services aligned with a lower-carbon economy, consistent with the *latest international agreement on climate change*; physical damage to assets from climate events; and the costs of climate adaptation or mitigation); and
- (e) if the entity is unable to disclose quantitative information for paragraph 14(a)–(d), an explanation of why that is the case.

### Climate resilience

15 An entity shall disclose information that enables users of general purpose financial reporting to understand the resilience of the entity's strategy (including its business model) to climate-related changes, developments or uncertainties—taking into consideration an entity's identified significant climate-related risks and opportunities and related uncertainties. The entity shall use *climate-related scenario analysis* to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience. When providing quantitative information, an entity can disclose single amounts or a range. Specifically, the entity shall disclose:

- (a) the results of the analysis of climate resilience, which shall enable users to understand:
  - (i) the implications, if any, of the entity's findings for its strategy, including how it would need to respond to the effects identified in paragraph 15(b)(i)(8) or 15(b)(ii)(6);
  - (ii) the significant areas of uncertainty considered in the analysis of climate resilience;

- (iii) the entity's capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments in terms of:
  - (1) the availability of, and flexibility in, existing financial resources, including capital, to address climate-related risks, and/or to be redirected to take advantage of climate-related opportunities;
  - (2) the ability to redeploy, repurpose, upgrade or decommission existing assets; and
  - (3) the effect of current or planned investments in climate-related mitigation, adaptation or opportunities for climate resilience.
- (b) how the analysis has been conducted, including:
  - (i) when climate-related scenario analysis is used:
    - (1) which scenarios were used for the assessment and the sources of the scenarios used;
    - (2) whether the analysis has been conducted by comparing a diverse range of climate-related scenarios;
    - (3) whether the scenarios used are associated with transition risks or increased physical risks;
    - (4) whether the entity has used, among its scenarios, a scenario aligned with the latest international agreement on climate change;
    - (5) an explanation of why the entity has decided that its chosen scenarios are relevant to assessing its resilience to climate-related risks and opportunities;
    - (6) the time horizons used in the analysis;
    - (7) the inputs used in the analysis, including—but not limited to—the scope of risks (for example, the scope of physical risks included in the scenario analysis), the scope of operations covered (for example, the operating locations used), and details of the assumptions (for example, geospatial coordinates specific to entity locations or national- or regional-level broad assumptions); and
    - (8) assumptions about the way the transition to a lower-carbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates; assumptions about macroeconomic trends; energy usage and mix; and technology.

## CLIMATE-RELATED DISCLOSURES

- (ii) when climate-related scenario analysis is not used:
  - (1) an explanation of the methods or techniques used to assess the entity's climate resilience (for example, single-point forecasts, sensitivity analysis or qualitative analysis);
  - (2) the climate-related assumptions used in the analysis including whether it includes a range of hypothetical outcomes;
  - (3) an explanation of why the entity has decided that the chosen climate-related assumptions are relevant to assessing its resilience to climate-related risks and opportunities;
  - (4) the time horizons used in the analysis;
  - (5) the inputs used in the analysis, including—but not limited to—the scope of risks (for example, the scope of physical risks included in the analysis), the scope of operations covered (for example, the operating locations used), and details of the assumptions (for example, geospatial coordinates specific to entity locations or national- or regional-level broad assumptions);
  - (6) assumptions about the way the transition to a lower-carbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates; assumptions about macroeconomic trends; energy usage and mix; and technology; and
  - (7) an explanation of why the entity was unable to use climate-related scenario analysis to assess the climate resilience of its strategy.

### **Risk management**

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- 16 **The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reporting to understand the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed.**
- 17 To achieve this objective, an entity shall disclose:
  - (a) the process, or processes, it uses to identify climate-related:
    - (i) risks; and
    - (ii) opportunities;
  - (b) the process, or processes, it uses to identify climate-related risks for risk management purposes, including when applicable:



- (i) how it assesses the likelihood and effects associated with such risks (such as the qualitative factors, quantitative thresholds and other criteria used);
  - (ii) how it prioritises climate-related risks relative to other types of risks, including its use of risk-assessment tools (for example, science-based risk-assessment tools);
  - (iii) the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions); and
  - (iv) whether it has changed the processes used compared to the prior reporting period;
- (c) the process, or processes, it uses to identify, assess and prioritise climate-related opportunities;
- (d) the process, or processes, it uses to monitor and manage the climate-related:
- (i) risks, including related policies; and
  - (ii) opportunities, including related policies;
- (e) the extent to which and how the climate-related risk identification, assessment and management process, or processes, are integrated into the entity's overall risk management process; and
- (f) the extent to which and how the climate-related opportunity identification, assessment and management process, or processes, are integrated into the entity's overall management process.

18 In preparing disclosures to fulfil the requirements in paragraph 17, an entity shall avoid unnecessary duplication in accordance with [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (see paragraph 78). For example, although an entity shall provide the information required by paragraph 17, when its oversight of sustainability-related risks and opportunities is managed on an integrated basis, providing integrated risk management disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication.

## Metrics and targets

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19 **The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant climate-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.**

20 To achieve this objective, an entity shall disclose:

## CLIMATE-RELATED DISCLOSURES

- (a) information relevant to the cross-industry metric categories (see paragraph 21), which are relevant to entities regardless of industry and business model;
- (b) industry-based metrics (as set out in Appendix B) which are associated with disclosure topics and relevant to entities that participate within an industry, or whose business models and underlying activities share common features with those of the industry;
- (c) other metrics used by the board or management to measure progress towards the targets identified in paragraph 20(d); and
- (d) targets set by the entity to mitigate or adapt to climate-related risks or maximise climate-related opportunities.

21 An entity shall disclose information relevant to the cross-industry metric categories of:

- (a) *greenhouse gas emissions* – the entity shall disclose:
  - (i) its absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the *Greenhouse Gas Protocol Corporate Standard*, expressed as metric tonnes of *CO<sub>2</sub> equivalent*, classified as:
    - (1) *Scope 1 emissions*;
    - (2) *Scope 2 emissions*;
    - (3) *Scope 3 emissions*;
  - (ii) its greenhouse gas emissions intensity for each scope in paragraph 21(a)(i)(1)–(3), expressed as metric tonnes of CO<sub>2</sub> equivalent per unit of physical or economic output;
  - (iii) for Scope 1 and Scope 2 emissions disclosed in accordance with paragraph 21(a)(i)(1)–(2), the entity shall disclose emissions separately for:
    - (1) the consolidated accounting group (the parent and its subsidiaries);
    - (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in paragraph 21(a)(iii)(1);
  - (iv) the approach it used to include emissions for the entities included in paragraph 21(a)(iii)(2) (for example, the equity share or operational control method in the *Greenhouse Gas Protocol Corporate Standard*);
  - (v) the reason, or reasons, for the entity’s choice of approach in paragraph 21(a)(iv) and how that relates to the disclosure objective in paragraph 19;
  - (vi) for Scope 3 emissions disclosed in accordance with paragraph 21(a)(i)(3):

- (1) an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
  - (2) an entity shall disclose the categories included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;
  - (3) when the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it shall explain the basis for that measurement;
  - (4) if the entity excludes those greenhouse gas emissions in paragraph 21(a)(vi)(3), it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure;
- (b) transition risks—the amount and percentage of assets or business activities vulnerable to transition risks;
  - (c) physical risks—the amount and percentage of assets or business activities vulnerable to physical risks;
  - (d) climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities;
  - (e) capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities;
  - (f) *internal carbon prices*:
    - (i) the price for each metric tonne of greenhouse gas emissions that the entity uses to assess the costs of its emissions;
    - (ii) an explanation of how the entity is applying the carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis);
  - (g) remuneration:
    - (i) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations; and
    - (ii) a description of how climate-related considerations are factored into executive remuneration (also see paragraph 5(f)).
- 22 In preparing disclosures to fulfil the requirements in paragraph 21(b)–(g), an entity shall
- (a) consider whether industry-based metrics associated with disclosure topics, as described in paragraph 20(b), including those defined in an applicable IFRS Sustainability Disclosure Standard or those that otherwise satisfy [draft] IFRS S1 *General Requirements for Disclosure of*

## CLIMATE-RELATED DISCLOSURES

*Sustainability-related Financial Information* could be used in whole or part to meet the requirements; and

- (b) in accordance with paragraphs 37–38 of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, consider the relationship of these amounts with the amounts recognised and disclosed in the accompanying financial statements (for example, the carrying amount of assets used should be consistent with amounts included in the financial statements and when possible the connections between information in these disclosures and amounts in the financial statements should be explained).
- 23 An entity shall disclose its climate-related targets. For each climate-related target, an entity shall disclose:
- (a) metrics used to assess progress towards reaching the target and achieving its strategic goals;
  - (b) the specific target the entity has set for addressing climate-related risks and opportunities;
  - (c) whether this target is an *absolute target* or an *intensity target*;
  - (d) the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives);
  - (e) how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party;
  - (f) whether the target was derived using a sectoral decarbonisation approach;
  - (g) the period over which the target applies;
  - (h) the base period from which progress is measured; and
  - (i) any milestones or interim targets.
- 24 In identifying, selecting and disclosing the metrics described in paragraph 23(a), an entity shall refer to and consider the applicability of industry-based metrics, as described in paragraph 20(b), including those defined in Appendix B, those included in an applicable IFRS Sustainability Disclosure Standard, or those that otherwise satisfy [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

## Appendix A Defined terms

*This appendix is an integral part of [draft] IFRS S2 and has the same authority as the other parts of the [draft] Standard.*

<b>Absolute target</b>	A target defined by a change in absolute emissions over time, for example, reducing CO <sub>2</sub> emissions by 25% below 1994 levels by 2010.
<b>Carbon offset</b>	An emissions unit issued by a carbon crediting programme that represents an emission reduction or removal of a greenhouse gas emission. Carbon offsets are uniquely serialised, issued, tracked and cancelled by means of an electronic registry.
<b>Certified carbon offset</b>	<p>Certified carbon offset credits are <b>carbon offsets</b> that take the form of transferable or tradable instruments, certified by governments or independent certification bodies, representing a removal of emissions of one metric tonne of CO<sub>2</sub>, or an equivalent amount of other <b>greenhouse gases</b>.</p> <p>This links to the Kyoto Protocol, which included three market-based mechanisms (Article 6, 12, 17)—emissions trading, the clean development mechanism and joint implementation giving the parties a degree of flexibility in meeting their emission-reduction targets.</p>
<b>Climate resilience</b>	The capacity of an entity to adjust to uncertainty related to climate change. This involves the capacity to manage <b>climate-related risks</b> and benefits from <b>climate-related opportunities</b> , including the ability to respond and adapt to <b>transition risks</b> and <b>physical risks</b> .
<b>Climate-related scenario analysis</b>	Scenario analysis is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, climate-related scenario analysis allows an entity to explore and develop an understanding of how the <b>physical risks</b> and <b>transition risks</b> of climate change may affect its businesses, strategies and financial performance over time.
<b>Climate-related risks and opportunities</b>	Climate-related risks refer to the potential negative effects of climate change on an entity. <b>Physical risks</b> emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (for example, cyclones, droughts, floods and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (which could result in, for example, sea-level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal

## CLIMATE-RELATED DISCLOSURES

actions, changes in technology, market responses and reputational considerations.

Climate-related opportunities refer to the potentially positive climate-change generated outcomes for an entity. Global efforts to mitigate and adapt to climate change can produce climate-related opportunities for entities. For example, a power generating company could increase its revenue due to a growing demand for cooling (achieved by using electricity) in regions that experience more heatwaves. Climate-related opportunities will vary depending on the region, market and industry in which an entity operates.

Climate-related risks and opportunities include climate-related risks and climate-related opportunities as previously described.

<b>CO<sub>2</sub> equivalent</b>	The universal unit of measurement to show the global warming potential of each of the seven <b>greenhouse gases</b> , expressed in terms of the global warming potential of one unit of carbon dioxide for 100 years. This unit is used to evaluate releasing (or avoiding releasing) any <b>greenhouse gas</b> against a common basis.
<b>Greenhouse gases</b>	The seven greenhouse gases listed in the Kyoto Protocol—carbon dioxide (CO <sub>2</sub> ); methane (CH <sub>4</sub> ); nitrous oxide (N <sub>2</sub> O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF <sub>3</sub> ); perfluorocarbons (PFCs); and sulphur hexafluoride (SF <sub>6</sub> ).
<b>Greenhouse Gas Protocol Corporate Standard</b>	<p>The Greenhouse Gas Protocol Initiative is a multi-stakeholder partnership of businesses, non-governmental organisations (NGOs), governments, and others convened by the World Resources Institute, a US-based environmental NGO, and the World Business Council for Sustainable Development, a Geneva-based coalition of 170 international companies. Launched in 1998, the initiative’s mission is to develop internationally accepted <b>greenhouse gas</b> accounting and reporting standards for business and to promote their broad adoption.</p> <p>The Greenhouse Gas Protocol Corporate Standard provides standards and guidance for companies and other types of organisations preparing a <b>greenhouse gas</b> emissions inventory. It covers the accounting and reporting of the seven <b>greenhouse gases</b> covered by the Kyoto Protocol.</p>
<b>Intensity target</b>	A target defined by a change in the ratio of emissions to a business metric over time, for example, reduce CO <sub>2</sub> per tonne of cement by 12% by 2008.
<b>Internal carbon price</b>	Price used by entities to assess the financial implications of changes to investment, production and consumption patterns, as well as potential technological progress and future emissions-abatement costs. Entities’ internal carbon prices can

be used for a range of business applications. There are two types of internal carbon prices commonly used by entities.

The first type is a shadow price, which is a theoretical cost or notional amount that the entity does not charge but that can be used in assessing the economic implications or trade-offs for such things as risk impacts, new investments, net present value of projects, and the cost–benefit of various initiatives.

The second type is an internal tax or fee, which is a carbon price charged to a business activity, product line, or other business unit based on its **greenhouse gas** emissions (these internal taxes or fees are similar to intracompany transfer pricing).

<b>Latest international agreement on climate change</b>	The latest international agreement on climate change is an agreement by states, as members of the United Nations Framework Convention on Climate Change to combat climate change. The agreements set norms and targets for a reduction in <b>greenhouse gases</b> .
<b>Legacy asset</b>	An asset that has remained on an entity’s statement of financial position for a long period of time and has since become obsolete or has lost nearly all of its initial value.
<b>Physical risks</b>	Risks resulting from climate change that can be event-driven (acute) or from longer-term shifts (chronic) in climate patterns. These risks may carry financial implications for entities, such as direct damage to assets, and indirect effects of supply-chain disruption. Entities’ financial performance may also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting entities’ premises, operations, supply chain, transportation needs and employee safety.
<b>Scope 1 emissions</b>	Direct <b>greenhouse gas</b> emissions that occur from sources that are owned or controlled by an entity, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles or emissions from chemical production in owned or controlled process equipment.
<b>Scope 2 emissions</b>	Indirect <b>greenhouse gas</b> emissions that occur from the generation of purchased electricity, heat or steam consumed by an entity. Purchased electricity is defined as electricity that is purchased or otherwise brought into an entity’s boundary. Scope 2 emissions physically occur at the facility where electricity is generated.
<b>Scope 3 emissions</b>	Indirect emissions outside of <b>Scope 2 emissions</b> that occur in the <b>value chain</b> of the reporting entity, including both upstream and downstream emissions. For the purposes of this standard, Scope 3 emissions include these categories (consistent with the GHG Protocol):

## CLIMATE-RELATED DISCLOSURES

- (1) purchased goods and services;
- (2) capital goods;
- (3) fuel- and energy-related activities not included in **Scope 1 emissions** or **Scope 2 emissions**;
- (4) upstream transportation and distribution;
- (5) waste generated in operations;
- (6) business travel;
- (7) employee commuting;
- (8) upstream leased assets;
- (9) downstream transportation and distribution;
- (10) processing of sold products;
- (11) use of sold products;
- (12) end-of-life treatment of sold products;
- (13) downstream leased assets;
- (14) franchises; and
- (15) investments.

Scope 3 emissions could include—the extraction and production of purchased materials and fuels; transport-related activities in vehicles not owned or controlled by the reporting entity; electricity-related activity (for example, transmission and distribution losses), outsourced activities, and waste disposal.

### **Transition plan**

An aspect of an entity's overall strategy that lays out the entity's targets and actions for its transition towards a lower-carbon economy, including actions such as reducing its **greenhouse gas** emissions.

### **Transition risks**

Moving to a lower-carbon economy may entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements relating to climate change. Depending on the nature, speed and focus of these changes, transition risks may pose varying levels of financial and reputational risk to entities.



## Terms defined in other [draft] Standards and used in this [draft] Standard with the same meaning

<b>Business model</b>	An entity's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value over the short, medium and long term.
<b>Disclosure topic</b>	A specific sustainability-related risk or opportunity based on the activities conducted by entities within a particular industry as set out in an IFRS Sustainability Disclosure Standard or an industry-based SASB Standard.
<b>Enterprise value</b>	The total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt.
<b>General purpose financial reporting</b>	<p>The provision of financial information about a reporting entity that is useful to primary users in making decisions relating to providing resources to the entity. Those decisions involve decisions about:</p> <ul style="list-style-type: none"> <li>(a) buying, selling or holding equity and debt instruments;</li> <li>(b) providing or selling loans and other forms of credit; or</li> <li>(c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.</li> </ul> <p>General purpose financial reporting encompasses—but is not restricted to—an entity's general purpose financial statements and sustainability-related financial disclosures.</p>
<b>Users</b>	Existing and potential investors, lenders and other creditors.
<b>Value chain</b>	<p>The full range of activities, resources and relationships related to a reporting entity's <b>business model</b> and the external environment in which it operates.</p> <p>A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include those in the entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.</p>

## Appendix B

### Industry-based disclosure requirements

*This appendix is an integral part of [draft] IFRS S2 and has the same authority as the other parts of the [draft] Standard.*

#### Introduction

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- B1 This [draft] Standard sets out the requirements for identifying, measuring and disclosing information related to an entity's significant climate-related risks and opportunities that are associated with specific business models, economic activities and other common features characterised by participation in an industry. In applying this [draft] Standard, an entity that participates in a particular industry would be required to provide the information set out in these requirements.
- B2 The industry-based disclosure requirements have been derived from SASB Standards (see paragraphs B10–B12). They are largely unchanged from the equivalent requirements in the SASB Standards. Where changes are proposed, these have been marked up for ease of reference. Because the requirements are industry-based, only a subset is likely to apply to a particular entity (see paragraphs B13–B15).

#### Structure and terminology

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- B3 The industry-based disclosure requirements are organised by industry, enabling an entity to identify the requirements that are applicable to its business model and associated activities. For each industry, disclosure topic(s) related to climate-related risks or opportunities are identified. A set of metrics is associated with each disclosure topic. The disclosure topics represent those climate-related risks and opportunities that have been identified as those that are most likely to be significant to entities in that industry, and the associated metrics are those that have been identified as being most likely to result in the disclosure of information that is relevant to an assessment of enterprise value.
- B4 The industry-based disclosure requirements in this Appendix contain:
- (a) **Industry descriptions**, which are intended to clarify the scope of application by defining the relevant business models, underlying economic activities, common sustainability-related impacts and dependencies and other shared features that are characteristic of participation in the industry;
  - (b) **Disclosure topics**, which define a specific sustainability-related risk or opportunity based on the activities conducted by entities within a particular industry, including a brief description of how management or mismanagement may affect an entity's enterprise value;
  - (c) **Metrics**, which accompany disclosure topics and are designed to, either individually or as part of a set, present useful information regarding performance on a specific disclosure topic;

- (d) **Technical protocols**, which provide guidance on definitions, scope, implementation and compilation; and
- (e) **Activity metrics**, which quantify the scale of specific activities or operations by an entity and are intended for use in conjunction with metrics to normalise data and facilitate comparison.

## Application

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### Materiality

- B5 The objective of this Standard is to require entities to provide material information about their exposure to climate-related risks and opportunities that is useful to users of general-purpose financial reporting in assessing the entity's enterprise value and making decisions about whether to provide economic resources to the entity.
- B6 As described in paragraph B3, the disclosures set out in Appendix B and its related volumes have been identified as those that are likely to be useful to users of general purpose financial reporting in making assessments of an entity's enterprise value. However, the responsibility for making materiality judgements and determinations rests with the reporting entity for all requirements in IFRS Sustainability Disclosure Standards, including this Standard. Therefore, an entity shall disclose information related to a specific requirement when it concludes that the information is material to the users of the information in assessing the enterprise value of the entity.
- B7 The disclosure topics and associated metrics in this Standard are not exhaustive. An entity shall consider the full range of climate-related risks and opportunities it faces, including those not identified in this Standard, and shall describe those it has concluded are significant in accordance with paragraph 9(a). Accordingly, an entity may need to provide information related to additional topics not included in these industry-based requirements – as well as associated metrics used by the entity – to meet the requirements of this Standard, particularly when an entity faces climate-related risks or opportunities that are emerging rapidly or associated with unique aspects of its business model or circumstances.

### Selecting the appropriate industry (or industries)

- B8 The industry-based requirements are organised according to the Sustainable Industry Classification System<sup>®</sup> (SICS<sup>®</sup>). In preparing disclosures in accordance with the industry-based requirements, an entity shall identify the industry or industries it has selected. As a starting point, an entity can identify its primary industry classification on the SASB Standards website.<sup>4</sup>

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<sup>4</sup> The IFRS Foundation expects to incorporate the body of work developed by the Value Reporting Foundation, including SASB Standards, into its materials before publication of any standard arising from the Exposure Draft.

- B9 Some entities participate in a broad range of activities that are likely to span more than one industry. For entities whose operations are integrated horizontally across industries (such as conglomerates) or vertically through the value chain, more than one set of industry-based requirements may be required to be applied to meet the objective of completeness and address the full range of climate-related disclosure topics reasonably likely to make an impact on an entity's ability to create enterprise value.

### **Compatibility with SASB Standards**

- B10 The industry-based requirements have been derived from SASB Standards. An entity that has, in a prior reporting period, used SASB Standards as a basis for preparing sustainability-related financial disclosures will find that—except for the items identified in paragraph B11—the requirements are consistent with SASB Standards. Such consistency includes the:

- (a) industry classifications;
- (b) disclosure topics;
- (c) metrics and technical protocols; and
- (d) activity metrics.

- B11 There are two proposed differences between SASB Standards and the industry-based requirements in this Standard, which are indicated in the appropriate volumes (see paragraph B16). These differences are marked up for ease of reference, with additions underscored and deletions struck through. These differences include:

- (a) a subset of industry-based requirements that include proposed modifications to make them more applicable globally; and
- (b) disclosure topics that have been proposed to be added to four industries in the financial sector, along with associated metrics, to address risks from financed and facilitated emissions.

- B12 Where applicable, the industry-based requirements are accompanied by the relevant SASB metric code from which they were derived to assist preparers who have used SASB Standards in their transition to IFRS Sustainability Disclosure Standards.

### **Identifying significant risks and opportunities and preparing disclosures**

- B13 Paragraph 9(a) requires an entity to identify and describe the significant climate-related risks and opportunities to which it is exposed. In fulfilling this requirement, preparers are likely to find the industry-based requirements to be a useful starting point to identify risks and opportunities. In particular, the disclosure topics define climate-related risks or opportunities that have been identified as being likely to result in the disclosure of useful information based on the activities conducted by entities within a particular industry.

<b>Example</b>
<p>An entity in the automobiles industry might review the requirements and determine that the disclosure topic on ‘Fuel Economy and Use-phase Emissions’ is relevant to its circumstances. The disclosure topic notes that ‘the combustion of petroleum-based fuels by motor vehicles accounts for a significant share of greenhouse gas emissions that contribute to global climate change’ and that ‘more stringent emissions standards and changing consumer demands are driving the expansion of markets for electric vehicles and hybrids, as well as for conventional vehicles with high fuel efficiency.’ Accordingly, the disclosure topic can be either a transition risk—if the entity is challenged to mitigate the risk of changing buyer preferences and adapt its business model—or a climate-related opportunity—if the entity innovates to meet or exceed regulatory standards and capture an increasing share of an evolving market.</p>

- B14 In paragraphs 12–15, the Standard requires an entity to provide additional disclosure on the significant climate-related risks identified and described in paragraph 9(a). In preparing such disclosure, entities shall refer to the metrics associated with the industry-based requirements, in accordance with paragraph 11.

<b>Example</b>
<p>The automaker (see previous example) would disclose information about the ‘Fuel Economy and Use-phase Emissions’ disclosure topic in accordance with the industry-based requirements in this Standard. For example, the entity would use the associated metrics—including the fuel economy of the entity’s fleet (metric TR-AU-410a.1) and its sales of zero-emission vehicles (metric TR-AU-410a.2). These disclosures would help fulfil the industry-based requirements and those related to metrics and targets. However, the entity might also use them to fulfil the requirement in paragraph 13(c) to disclose quantitative information about the progress of plans disclosed in accordance with paragraph 13(a), helping users understand how the entity plans to achieve the climate-related targets it has set. Investors have emphasised that disclosures related to an entity’s climate-related transition plan should detail specific actions and activities the entity is undertaking—or plans to undertake—to support the transition.</p>

### **Preparing information to fulfil cross-industry metric categories**

- B15 Similarly, an entity shall review and consider whether the industry-based requirements for disclosing quantitative information would meet the requirements for disclosures related to cross-industry metric categories in paragraph 21(a)–(e). For example:

CLIMATE-RELATED DISCLOSURES

- (a) paragraph 21(a) requires the disclosure of the entity’s gross Scope 1 greenhouse gas emissions, which an entity in the semiconductors industry might enhance by disclosing the percentage of Scope 1 emissions associated with perfluorinated compounds (see metric TC-SC-110a.1);
  - (b) paragraph 21(c) requires the disclosure of quantitative information related to an entity’s physical climate risk exposure, which an entity in the agricultural products industry might fulfil by disclosing the percentage of key crops sourced from water-stressed regions (see metric FB-AG-440a.2);
  - (c) paragraph 21(d) requires the disclosure of quantitative information related to an entity’s climate-related opportunities, which an entity in the chemicals industry might fulfil by disclosing its revenue from products designed for use-phase resource efficiency (see metric RT-CH-410a.1); and
  - (d) paragraph 21(e) requires the disclosure of quantitative information about an entity’s climate-related capital deployment, which an oil and gas entity might fulfil by disclosing the amount it has invested in renewable energy (see metric EM-EP-420a.3).
- B16 Regardless of whether a preparer identifies a direct or explicit connection between a specific cross-industry metric category and a given industry-based disclosure topic or its corresponding metric(s), the entity shall refer to its full set(s) of relevant industry-based requirements with a view to presenting fairly the climate-related risks and opportunities to which it is exposed.
- B17 The industry-based disclosure requirements associated with this Standard are published in separate, industry-based volumes, labelled as Volumes B1–B68 of this Standard, as outlined in Table 1.

**Table 1–Volumes B1–B68: Industry-based requirements**

SICS® sector and industry	Volume
<b>Consumer Goods</b>	
Apparel, Accessories & Footwear	B1 (CG-AA)
Appliance Manufacturing	B2 (CG-AM)
Building Products & Furnishings	B3 (CG-BF)
E-Commerce	B4 (CG-EC)
Household & Personal Products	B5 (CG-HP)
Multiline and Specialty Retailers & Distributors	B6 (CG-MR)
Toys & Sporting Goods	

*continued...*

EXPOSURE DRAFT—MARCH 2022

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<b>SICS® sector and industry</b>	<b>Volume</b>
<b>Extractives &amp; Minerals Processing</b>	
Coal Operations	B7 (EM-CO)
Construction Materials	B8 (EM-CM)
Iron & Steel Producers	B9 (EM-IS)
Metals & Mining	B10 (EM-MM)
Oil & Gas—Exploration & Production	B11 (EM-EP)
Oil & Gas—Midstream	B12 (EM-MD)
Oil & Gas—Refining & Marketing	B13 (EM-RM)
Oil & Gas—Services	B14 (EM-SV)
<b>Financials</b>	
Asset Management & Custody Activities	B15 (FN-AC)
Commercial Banks	B16 (FN-CB)
Consumer Finance	
Insurance	B17 (FN-IN)
Investment Banking & Brokerage	B18 (FN-IB)
Mortgage Finance	B19 (FN-MF)
Security & Commodity Exchanges	
<b>Food &amp; Beverage</b>	
Agricultural Products	B20 (FB-AG)
Alcoholic Beverages	B21 (FB-AB)
Food Retailers & Distributors	B22 (FB-FR)
Meat, Poultry & Dairy	B23 (FB-MP)
Non-Alcoholic Beverages	B24 (FB-NB)
Processed Foods	B25 (FB-PF)
Restaurants	B26 (FB-RN)
Tobacco	
<b>Health Care</b>	
Biotechnology & Pharmaceuticals	
Drug Retailers	B27 (HC-DR)
Health Care Delivery	B28 (HC-DY)
Health Care Distributors	B29 (HC-DI)
Managed Care	B30 (HC-MC)
Medical Equipment & Supplies	B31 (HC-MS)

continued...

CLIMATE-RELATED DISCLOSURES

...continued

SICS® sector and industry	Volume
<b>Infrastructure</b>	
Electric Utilities & Power Generators	B32 (IF-EU)
Engineering & Construction Services	B33 (IF-EN)
Gas Utilities & Distributors	B34 (IF-GU)
Home Builders	B35 (IF-HB)
Real Estate	B36 (IF-RE)
Real Estate Services	B37 (IF-RS)
Waste Management	B38 (IF-WM)
Water Utilities & Services	B39 (IF-WU)
<b>Renewable Resources &amp; Alternative Energy</b>	
Biofuels	B40 (RR-BI)
Forestry Management	B41 (RR-FM)
Fuel Cells & Industrial Batteries	B42 (RR-FC)
Pulp & Paper Products	B43 (RR-PP)
Solar Technology & Project Developers	B44 (RR-ST)
Wind Technology & Project Developers	B45 (RR-WT)
<b>Resource Transformation</b>	
Aerospace & Defense	B46 (RT-AE)
Chemicals	B47 (RT-CH)
Containers & Packaging	B48 (RT-CP)
Electrical & Electronic Equipment	B49 (RT-EE)
Industrial Machinery & Goods	B50 (RT-IG)
<b>Services</b>	
Advertising & Marketing	
Casinos & Gaming	B51 (SV-CA)
Education	
Hotels & Lodging	B52 (SV-HL)
Leisure Facilities	B53 (SV-LF)
Media & Entertainment	
Professional & Commercial Services	

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<b>SICS® sector and industry</b>	<b>Volume</b>
<b>Technology &amp; Communications</b>	
Electronic Manufacturing Services & Original Design Manufacturing	B54 (TC-ES)
Hardware	B55 (TC-HW)
Internet Media & Services	B56 (TC-IM)
Semiconductors	B57 (TC-SC)
Software & IT Services	B58 (TC-SI)
Telecommunication Services	B59 (TC-TL)
<b>Transportation</b>	
Air Freight & Logistics	B60 (TR-AF)
Airlines	B61 (TR-AL)
Auto Parts	B62 (TR-AP)
Automobiles	B63 (TR-AU)
Car Rental & Leasing	B64 (TR-CR)
Cruise Lines	B65 (TR-CL)
Marine Transportation	B66 (TR-MT)
Rail Transportation	B67 (TR-RA)
Road Transportation	B68 (TR-RO)

## **Appendix C**

### **Effective date**

*This appendix is an integral part of [draft] IFRS S2 and has the same authority as the other parts of the [draft] Standard.*

- C1 An entity shall apply this [draft] Standard for annual reporting periods beginning on or after 1 January 20XX. Earlier application is permitted. If an entity applies this [draft] Standard earlier, it shall disclose that fact.
- C2 An entity is not required to provide the disclosures specified in this [draft] Standard for any period before the date of initial application. Accordingly, comparative information is not required to be disclosed in the first period in which an entity applies this [draft] Standard.

**Approval by the ISSB Chair and Vice-Chair of Exposure Draft  
IFRS S2 *Climate-related Disclosures* published in March 2022**

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The Exposure Draft IFRS S2 *Climate-related Disclosures* was approved for publication by the Chair and Vice-Chair of the International Sustainability Standards Board.

Emmanuel Faber

Chair

Suzanne Lloyd

Vice-Chair



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