Principles for Responsible Investment

BRIEFING NOTE

SUMMARY OF THE ISSB'S INAUGURAL STANDARDS

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INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

ABOUT THIS BRIEFING NOTE

The IFRS Foundation Trustees announced the creation of its International Sustainability Standards Board (ISSB) in 2021. The Board aims to deliver a global baseline of sustainability-related financial disclosure standards to provide global financial markets with information on companies' sustainability-related risks and opportunities, building on established sustainability reporting initiatives.

After having consulted on exposure draft standards last summer and voting on key changes to these, in June 2023 the ISSB released final versions of its first two sustainability reporting standards:

- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ('**IFRS S1**') – applicable to reporting on sustainability-related financial risks and opportunities for all sustainability issues.
- IFRS S2 Climate-related Disclosures ('**IFRS S2**') – applicable to reporting on climate-related financial risks and opportunities.

This briefing note aims to support signatories by summarising reporting requirements within the standards, including requirements set out in the Appendices to the standards and accompanying guidance, at a higher level of detail than most existing summaries. References in this document indicate the source paragraph in exposure drafts. The ISSB also published Basis for Conclusions documents explaining the rationale behind requirements in each Standard – these are beyond the scope of this briefing note.

The PRI has previously provided views and recommendations on international sustainability reporting standard setting through consultation responses and public statements. We are supportive of efforts to develop a globally shared baseline for reporting on sustainability-related financial information, and have encouraged policymakers around the world to introduce mandatory ISSB disclosures across their economies by 2025 at the latest.

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KEY FEATURES OF ISSB STANDARDS

This section summarises key features of the ISSB Standards, including an overview of the content, structure and nature of the information they aim to provide to primary users of general-purpose financial reporting – these being existing and potential investors, lenders and other creditors [IFRS S1, page 23].

STRUCTURE

ISSB Standards are structured across the TCFD's four pillars (governance, strategy, risk management and metrics & targets). They also contain appendices with the same authority as other parts of the Standards – including definitions, application guidance, information quality requirements and relief provisions.

CONTENT

IFRS S1 contains disclosure requirements applicable to all sustainability issues, particularly in the absence of an issue-specific ISSB Standard. It also specifies how to report sustainability-related financial information. IFRS S2, in turn, contains disclosure requirements applicable to climate change.

MATERIALITY

ISSB Standards prescribe how entities should report their sustainability-related financial disclosures [IFRS S1, 4]. The assessment of materiality is the key process (or filter) to identify information that is material. As under IFRS Accounting Standards, ISSB Standards specify that information is material if "omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general-purpose financial reports make on the basis of those reports, which provide information about a specific reporting entity" [IFRS S1, 18].

In practice, the ISSB Standards require an entity to disclose material information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long-term ("prospects") [IFRS S1, 3]. Sustainability-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of the ISSB Standards [6].

This includes situations where the material information is not directly captured by requirements within the ISSB Standards [IFRS S1, B26] – for example if reporting on sustainability-related issues beyond climate change. Further information is reported below on the sources of guidance listed in the standard [IFRS S1, Appendix C].

Application guidance is provided on identifying material information, including [B19-24]:

- Considering quantitative and qualitative factors (e.g. the magnitude and nature of the effect of a sustainability-related risk or opportunity on the entity).
- Assessing whether information about possible future events is material – given (i) the potential effects on the amount, timing and uncertainty of the entity's future cash flows over the short, medium and long term; and (ii) the range of possible outcomes and the likelihood of the possible outcomes within that range.

The balance that reporting entities will have to manage when undertaking their materiality assessment is that this steer from the ISSB is based on its interpretation that primary users' decisions are ultimately driven by information on these (financial) prospects. However, the PRI recognises that some investors' decisions are informed by a broader set of information that also captures impact-related information. Ultimately, the standard requires the reporting entity to assess whether information could "reasonably" be expected to influence decisions by primary users [IFRS S1, B16] and even if this information is not deemed material on a financial basis, reporting entities will be allowed to report this information [IFRS S1, B23]. The example given by the standard is if the information is "highly scrutinised by primary users of an entity's general-purpose financial report", which we would interpret to include systemic risks like climate change.

Intuitively, this scope could include some impact-related information. The Standard goes as far as recognising the interaction between impacts and dependencies and the risks and opportunities, recognising that the former may give rise to the risks and opportunities [B2-B5]. However, the extent of the implications on entities' disclosure is difficult to assess without forthcoming guidance on how to use the ISSB Standards alongside the impact-focused GRI Standards and European Sustainability Reporting Standards (ESRS).

Entities could choose not to disclose against certain provisions of the standard and still be in compliance with an ISSB Standard, if:

- the company has deemed information resulting from these provisions to be non-material as defined by ISSB Standards [IFRS S1, B25];
- if local laws or regulations prevent the entity from disclosing certain information [IFRS S1, B33]; or
- if the entity deems information to be commercially sensitive based on conditions set out within the Standards [IFRS S1, B34-35].

LOCATION OF DISCLOSURES

Sustainability-related financial disclosures must be provided as part of the general-purpose financial reports [IFRS S1, 60],[1] which (depending on the jurisdiction) could mean reporting in the management commentary or similar reporting. However, entities are also permitted to include information required by ISSB Standards via cross-reference, provided this complies with the requirements of the ISSB Standards (e.g. on information quality) and the source is clearly indicated [IFRS S1, B45-47].

Note that entities can apply the ISSB Standards irrespective of whether their financial statements are prepared in accordance with IFRS Accounting Standards or other generally accepted accounting principles or practices (GAAP) [IFRS S1, 8].

REPORTING BOUNDARIES AND TIMING

Reporting must be provided for the same reporting entity as the related financial statements [IFRS S1, 20]. However, in identifying material sustainability risks and opportunities to report on, entities are required to consider their wider value chain [B5-B6].[2]

Data and assumptions used in preparing sustainability-related financial disclosures must be consistent – to the extent possible – with the corresponding data and assumptions used in preparing the related financial statements [IFRS S1, 23].

[1] As per the IFRS Foundation's Conceptual Framework for Financial Reporting, this refers to reporting that provides financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

[2] IFRS S1 specifies that a value chain "encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life" [page 24].

On timing of the reporting:

- The disclosure should be reported at the same time as the related financial statements [IFRS S1, 20, 60-64].
- Where entities change the end of their reporting period and provide sustainability-related financial disclosures for a period longer or shorter than 12 months, they must disclose and justify this decision [IFRS S1, 66].
- IFRS S1 does not mandate which entities would be required to provide interim sustainability-related financial disclosures, how frequently, or how soon after the end of the interim period [IFRS S1, 69]; although where entities are legally required to do so, IFRS S1 requires them to avoid duplicating information previously reported [B48].

CONNECTED INFORMATION

IFRS S1 requires entities to disclose information in a manner that captures the below connections between reported information [21].

- The items to which information relates, such as connections between various sustainability-related risks and opportunities.
- Information within the sustainability-related financial disclosures, such as between information on governance and strategy.
- Sustainability-related financial information and other information provided within the general-purpose financial reports (e.g. the financial statements).

The Standard also provides application guidance on how to achieve this, including examples of how the above information can be meaningfully connected in reporting and the insights this can produce [B39-44].

ADDITIONAL FEATURES

The below requirements within the IFRS Standards are not summarised within this briefing note. Information on these can be found within the following paragraphs of IFRS S1:

- Comparative information [70-71].
- Judgments, measurement uncertainty and errors [74-86].
- Characteristics of sustainability-related financial information: fair presentation [11-16], fundamental qualitative characteristics (relevance and faithful representation) and enhancing qualitative characteristics (comparability, verifiability, timeliness and understandability) [D4-33].

NEXT STEPS

The ISSB sets out that the entities shall apply both IFRS S1 and S2 for annual reporting period beginning on or after 1 January 2024. Earlier application is permitted, provided that an entity discloses this fact and applies IFRS S1 at the same time [IFRS S1, E1].

In the first reporting period in which an entity applies the ISSB Standards it is not required to:

- Report sustainability-related financial information at the same time as the financial statements [IFRS S1, E4].
- Disclose information on non-climate sustainability-related risks and opportunities [IFRS S1, E5].
- Disclose Scope 3 GHG emissions, including financed emissions [IFRS S2, C4].
- Measure its GHG emissions using the GHG Protocol methodology [IFRS S2, C4].

However, implementation timelines will depend on jurisdiction-level decisions on whether and when to adopt the ISSB Standards. As a result, the ISSB aims to promote adoption of its Standards, both through voluntary use by preparers and jurisdiction-level adoption into regulatory reporting requirements. The PRI is supportive of efforts to develop a global baseline for sustainability reporting and has encouraged policymakers to introduce mandatory ISSB disclosures across their economies by 2025 at the latest.

On 25 July 2023 the International Organization of Securities Commissions (IOSCO) endorsed the ISSB Standards as “appropriate to serve as a global framework for capital markets to develop the use of sustainability-related financial information”, and called on its 130 member jurisdictions to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards. This decision should help to provide jurisdictions with confidence that the ISSB Standards are suitable for adoption.

Looking beyond its inaugural standards, the ISSB has consulted on its next two-year workplan, including potential research and standard-setting projects on biodiversity, human rights, human capital and integration in reporting. The PRI responded to this consultation.

IFRS S1 – GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION

The following sections summarise key elements of the disclosure requirements on sustainability-related risks and opportunities across all ESG issues, set out in IFRS S1.

The Standard is supplemented by illustrative guidance on meeting primary users' information needs, the use of publicly available information, and applying the SASB Standards and CDSB Framework Application Guidance as sources of guidance.

GOVERNANCE

Governance-related disclosures under IFRS S1 are set out below. They capture the responsibilities and competencies of the body or individual responsible for overseeing sustainability-related risks and opportunities, and the role of management in monitoring these risks and opportunities.

- Body or individual responsible for oversight of sustainability-related risks/ opportunities [27-a].
  - Who is (or are) the governance body(s) or individual(s) responsible for oversight of sustainability-related risks/opportunities.
  - How these responsibilities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to the body(s) or individual(s).
  - How the body(s) or individual(s) determine whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to sustainability-related risks and opportunities.
  - How and how often they are informed about sustainability-related risks/opportunities.
  - How they consider sustainability-related risks/opportunities when overseeing strategy, decisions on major transactions, and risk management policies, including any assessment of trade-offs associated with those risks and opportunities.
  - How they oversee the setting of targets related to sustainability-related risks/opportunities, and monitor progress towards them, including whether and how related performance metrics are included in remuneration policies.
- Role of management [27-b].
  - What is the management's role in the governance processes, controls and procedures used to monitor, manage and oversee sustainability-related risks/opportunities.
  - Whether that role is delegated to a specific management-level position or committee and, if so, how oversight is exercised over that position or committee.
  - Whether management uses controls and procedures to support the oversight of sustainability-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

STRATEGY

There are three key elements of disclosure on strategy [29] – see **I-III** below.

I. SUSTAINABILITY-RELATED RISKS AND OPPORTUNITIES

IFRS S1 requires entities to:

- Describe sustainability-related risks and opportunities that could reasonably be expected to affect their prospects [30-a], and the time horizons (short, medium or long-term) over which their effects could reasonably be expected to occur [30-b].

- Explain how each time horizon is defined, and how these definitions are linked to the planning horizons used by the entity for strategic decision-making [30-c].
- Disclose the current and anticipated effects of sustainability-related risks and opportunities on their business model and value chain [32-a], and where in the business model and value chain these risks and opportunities are concentrated [32-b].

In identifying sustainability-related risks and opportunities and disclosures on these, IFRS S1 requires entities to apply IFRS S2 and any forthcoming issue-specific ISSB Standards [54, 56] and consider disclosure topics in the SASB Standards [55-a, 58-a], which are now part of the IFRS Foundation.[3] In addition, entities may also refer to and consider the applicability of [55-b, 58-b, Appendix C]:

- CDSB Framework Application Guidance.
- The most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general-purpose financial reports.
- The sustainability-related risks and opportunities identified by entities that operate in the same industry(s) or geographical region(s).
- The Global Reporting Initiative (GRI) Standards and European Sustainability Reporting Standards (ESRS), in identifying disclosures about sustainability-related risks and opportunities.

Irrespective of the standards or framework used, reporting entities are required to specify the standards, pronouncements, industry practice and other sources of guidance applied in preparing its sustainability-related financial disclosures, and the industry(s) specified in the guidance they have applied [59].

II. RESPONSE AND FINANCIAL EFFECTS

IFRS S1 requires entities to disclose how they are responding to sustainability-related risks and opportunities [33-a], progress against previously disclosed plans to do so [33-b], and trade-offs between sustainability-related risks and opportunities considered by the entity [33-c].

It also requires reporting on financial effects of sustainability-related risks and opportunities, including:

- How sustainability-related risks and opportunities have affected an entity's financial position, financial performance and cash flows for the reporting period [35-a].
- The risks and opportunities for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements [35-b].
- How the entity expects its financial position and financial performance to change over time, given its strategy to manage sustainability-related risks and opportunities [35-c, d].

In addition to the above disclosure requirements, IFRS S1 contains application guidance on identifying and reporting on sustainability-related risks and opportunities, including:

- How sustainability-related risks and opportunities can arise, including from impacts and dependencies [B2-5].
- How entities should identify sustainability-related risks and opportunities including requirements to use reasonable and supportable information, and to reassess the scope of risks and opportunities throughout the value chain after a significant event or change in circumstances [B6-10].

[3] A revised version of the SASB Standards for consideration by entities has been published alongside IFRS S2.

Finally, IFRS S1 includes several proportionality measures to support the disclosure of current and anticipated financial effects:

- In preparing these disclosures there is a requirement to "use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort", and to "use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures" [37].
- Entities are not required to provide quantitative information about current or anticipated financial effects if it influences the understandability of the data or due to the entity's capacity/resourcing [38-39], but are expected to report why and provide qualitative information to this effect [40].

III. RESILIENCE ANALYSIS

IFRS S1 requires entities to report a qualitative and, if applicable, quantitative assessment of the resilience of their strategy and business model to sustainability-related risks, including how the assessment was carried out and its time horizon [41].

The IFRS S1 Standard notes that other ISSB Standards (i.e., IFRS S2 or any future standards) will specify the type of information to disclose about resilience to issue-specific sustainability-related risks, such as when scenario analysis will be used [42]. For example, as specified in requirements on climate-related scenario analysis within IFRS S2.

RISK MANAGEMENT

IFRS S1 requires reporting on:

- Process(es) and related policies to identify, assess, prioritise and monitor sustainability-related risks, including [44-a]:
  - The inputs and parameters used, such as data sources and the scope of operations covered.
  - Whether and how scenario analysis is used for identification of sustainability-related risks.
  - How nature, likelihood and magnitude of risks are assessed.
  - Whether and how sustainability-related risks are prioritised relative to other types of risks.
  - How the entity monitors sustainability-related risks.
  - Whether and how the entity has changed its processes since the previous reporting period.
- Processes to identify, assess, prioritise and monitor sustainability-related opportunities [44-b].
- The extent to which, and how, the processes to identify, assess, prioritise and monitor sustainability-related risks and opportunities are integrated into and inform the entity's overall risk management process [44-c].

METRICS

IFRS S1 does not specify metrics for disclosure. However, it sets out expectations for the disclosure of these metrics, which are used to monitor and manage a reporting entity's sustainability-related risks and opportunities and performance in relation to these, including industry-based metrics and metrics required by other ISSB Standards [46, 48].

For sustainability-related risks or opportunities with no issue-specific ISSB Standard, entities are required to consider the sources of guidance listed in the Strategy section to identify metrics [47].

Entities are also given the flexibility to develop their own (additional) metrics. IFRS S1 requires them to disclose how these metrics are defined, their type (absolute, relative or qualitative), whether their measurement is validated by an external body and information on calculation methods [50].

IFRS S1 also includes application guidance on: (i) aggregating and disaggregating sustainability-related financial information [B29-30]; and (ii) on disclosing comparative information in respect of the preceding period for metrics – including new and estimated metrics – and correcting prior period errors [B49-59].

TARGETS

Disclosure requirements on sustainability-related targets (whether set internally or by law/regulation) [51] are listed below.

- Metric used to set the target and to monitor progress towards reaching the target.
- Specific quantitative or qualitative target the entity has set or is required to meet.
- Period over which the target applies.
- Base period from which progress is measured.
- Any milestones or interim targets.
- Performance against targets, and an analysis of trends or significant changes in performance.
- Revisions to targets and an explanation for these revisions.

IFRS S2 – CLIMATE-RELATED DISCLOSURES

The following sections summarise key elements of the disclosure requirements on climate-related risks and opportunities set out in IFRS S2.

The Standard is supplemented by:

- Illustrative guidance on aggregating and disaggregating GHG emissions.
- Industry-based guidance on implementing IFRS S2 that covers materiality [IB5-7] and identifying climate-related risks and opportunities and disclosures about these [IB8-16], including how industry-based metrics can be used to supplement or replace the required **Error! Reference source not found.**.

Note that disclosure requirements on 'governance' and 'risk management' are almost identical across the two Standards, and most requirements on 'strategy' are the same. The main variations across the two Standards apply to requirements on resilience analysis, metrics and targets. However, for completeness, the following sections list out all disclosure requirements of IFRS S2.

GOVERNANCE

Governance-related disclosures requirements under IFRS S2 are set out below.

- Body or individual responsible for oversight of climate-related risks/ opportunities [6-a].
  - Who is (or are) the governance body(s) or individual(s) responsible for oversight of climate-related risks/opportunities.
  - How these responsibilities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to the body(s) or individual(s).
  - How the body(s) or individual(s) determine whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate-related risks and opportunities.
  - How and how often they are informed about climate-related risks/opportunities.
  - How they consider climate-related risks/opportunities when overseeing strategy, decisions on major transactions, and risk management policies, including any assessment of trade-offs associated with those risks and opportunities.
  - How they oversee the setting of targets related to climate-related risks/opportunities, and monitor progress towards them, including whether and how related performance metrics are included in remuneration policies.
- Role of management [6-b].
  - What is the management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks/opportunities.
  - Whether that role is delegated to a specific management-level position or committee and, if so, how oversight is exercised over that position or committee.
  - Whether management uses controls and procedures to support the oversight of climate-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

STRATEGY

I. CLIMATE-RELATED RISKS AND OPPORTUNITIES

Disclosure requirements on climate-related risks and opportunities are listed below.

- A description of the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects [10-a], and whether these are physical or transition risks [10-b].

- In identifying these risks and opportunities, entities are required to "use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future conditions" [11], and to consider the applicability of industry-based disclosure topics within the SASB Standards [12].

- A definition of the time horizons (short, medium or long-term) over which the effects of each climate-related risk and opportunity could reasonably be expected to occur [10-c].
- An explanation of how each time horizon is defined, and how these definitions are linked to the planning horizons used by the entity for strategic decision-making [10-d].
- Current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain [13-a], and where in the business model and value chain these risks and opportunities are concentrated [13-b].

II. RESPONSE AND FINANCIAL EFFECTS

IFRS S2 also requires reporting on the financial effects of significant climate-related risks/opportunities. These disclosure requirements include:

- How climate-related risks and opportunities have affected entities' financial position, financial performance and cash flows for the reporting period [16-a].
- The climate-related risks and opportunities for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the financial statements [16-b].
- How financial position and financial performance are expected to change over the short, medium and long term, given the strategy to manage climate-related risks and opportunities [16-c, d].

IFRS S2 includes several measures to provide companies with flexibility to account for their context:

- The requirement to "use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort", and to "use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures" [18].
- Entities are not required to provide quantitative information about current or anticipated financial effects under the conditions set out in paragraphs 19-21.

Further, IFRS S2 requires entities to report on how they have responded to (and plan to respond to) climate-related risks/opportunities in their strategy and decision-making, including how the entity plans to achieve any climate-related targets [14-a], how the entity is resourcing (and plans to resource) this [14-b], and progress against previously disclosed plans [14-c].

III. RESILIENCE ANALYSIS

Disclosure requirements on climate resilience analysis are summarised in Figure 1 below.

Figure 1: IFRS S2 disclosure requirements on resilience analysis

Resilience analysis methodology [22-b]
■ Which scenarios were used, why they were used and their sources ■ Whether the analysis included a diverse range of climate-related scenarios ■ Whether scenarios used are associated physical and transition risks, and whether one is aligned with the latest international agreement on climate change (currently the Paris Agreement) ■ Time horizons, scope of operations and assumptions used ■ Reporting period in which the climate-related scenario analysis was carried out

Results and implications [22-a]
■ Implications of the assessment for the entity's strategy and business model, including how the entity would need to respond to the effects identified ■ Significant areas of uncertainty considered in the assessment of climate resilience ■ Availability of (and flexibility in) existing financial resources to address the effects identified ■ Ability to redeploy, repurpose, upgrade or decommission existing assets ■ Effect of current or planned investments in climate-related mitigation, adaptation or opportunities for climate resilience

In addition to the above disclosure requirements, IFRS S2 contains application guidance on climate-related scenario analysis, including factors to consider when assessing an entities' circumstances – these being exposure to climate-related risks and opportunities and the skills, capabilities and resources available to the entity for the analysis – and determining the appropriate approach [B2-18].

RISK MANAGEMENT

IFRS S2 requires reporting on:

- Process(es) and related policies to identify, assess, prioritise and monitor climate-related risks [24-a], including:
  - The inputs and parameters used, such as data sources and the scope of operations covered.
  - Whether and how scenario analysis is used for identification of climate-related risks.
  - How nature, likelihood and magnitude of risks are assessed.
  - Whether and how climate-related risks are prioritised relative to other types of risks.
  - How the entity monitors climate-related risks.
  - Whether and how the entity has changed its processes since the previous reporting period.
- Processes to identify, assess, prioritise and monitor climate-related opportunities [24-b].
- The extent to which, and how, the processes to identify, assess, prioritise and monitor climate-related risks and opportunities are integrated into and inform the entity's overall risk management process [24-c].

METRICS

IFRS S2 requires entities to disclose the following cross-industry metrics:

- Scope 1, 2 and 3 GHG emissions,[4] and information on the measurement approach used [29-a].
  - Scope 1 and 2 GHG emissions would be disclosed separately for: (i) the consolidated accounting group (parent and its consolidated subsidiaries); and (ii) other investees including associates, joint ventures and unconsolidated subsidiaries.
  - Scope 2 GHG emissions would be disclosed using the location-based method, along with information on any contractual instruments needed to inform users' understanding of these emissions.
  - For Scope 3 GHG emissions, entities would disclose:
    - Categories included in their measure of these emissions (in accordance with the GHG Protocol Corporate Value Chain Accounting and Reporting Standard).

[4] GHG emissions would need to be measured in accordance with the Greenhouse Gas Protocol Corporate Standard, unless required by a jurisdictional authority or exchange to use a different method

- Additional information about the entity’s Category 15 GHG emissions or those associated with its investments (financed emissions), if the entity’s activities include asset management, commercial banking or insurance.
- Amount and percentage of assets or business activities vulnerable to transition risks [29-b].
- Amount and percentage of assets or business activities vulnerable to physical risks [29-c].
- Amount and percentage of assets or business activities aligned with climate-related opportunities [29-d].
- Amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities [29-e].
- Internal carbon price, including price per metrics tonne of GHG emissions (mtCO2e) used to assess the cost of GHG emissions, and how this is applied in decision-making such as investment decisions, transfer pricing and scenario analysis [29-f].
- Percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations, and how these considerations are factored into executive remuneration [21-g].

To provide companies with flexibility to account for their context, in reporting all cross-industry metrics except Scope 1, 2 and 3 GHG emissions, entities are required to “use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort” [30].

IFRS S2 also requires entities to disclose industry-based metrics associated with particular business models, activities or other common features that characterise participation in an industry – and requires them to consider the ISSB’s industry-based guidance (informed by SASB Standards) published alongside IFRS S2 in determining these [32].

In addition to the above disclosure requirements, IFRS S2 contains application guidance in the following areas:

- Calculating and reporting greenhouse gas emissions including aggregation, using of the Greenhouse Gas Protocol, measurement approach, calculating and reporting on Scope 2 and 3 GHG emissions, and reporting on financed emissions [B20-63].
- Reporting **Error! Reference source not found.** in addition to GHG emissions [B64-65].

TARGETS

Disclosure requirements on climate-related targets are summarised in Figure 2 below.

Figure 2: IFRS S2 disclosure requirements on targets

All climate-related targets [33-35]	■ Metric used to set the target ■ Objective of the target ■ Part of the entity to which the target applies ■ Period over which the target applies ■ Base period from which progress is measured ■ Milestones or interim targets ■ If the target is quantitative, whether the target is an absolute or intensity target ■ How the target was informed by the latest international agreement on climate change (currently the Paris Agreement), including jurisdictional commitments that arise from this

	- Whether the target and methodology for setting the target has been validated by a third party - Processes for reviewing the target - Metrics used to monitor progress towards reaching the target - Any revisions to the target and an explanation for those revisions - Information about performance against each climate-related target and an analysis of trends or changes in performance

Greenhouse gas emissions targets [36]	- Which greenhouse gases are covered by the target
	- Whether Scope 1, 2 or 3 GHG emissions are covered by the target
	- Whether the target is a gross GHG emissions target or net GHG emissions target
	  - If the entity discloses a net GHG emissions target, it is also required to separately disclose its associated gross GHG emissions target
	- Whether the target was derived using a sectoral decarbonisation approach.
	- The entity's planned use of carbon credits to offset GHG emissions to achieve any net GHG emissions target – including the following information:
	  - The extent to which, and how, achieving any net GHG emissions target relies on the use of carbon credits
	  - Which third-party scheme(s) will verify or certify the carbon credits
	  - The type of carbon credit, including whether the underlying offset will be nature-based or based on technological carbon removals, and whether the underlying offset is achieved through carbon reduction or removal
	  - Any other factors necessary for users of general-purpose financial reports to understand the credibility and integrity of the carbon credits the entity plans to use (for example, assumptions regarding the permanence of the carbon offset)

In addition to the above disclosure requirements, IFRS S2 contains application guidance for reporting climate-related targets, including on GHG emissions targets and the use of carbon credits [B66-71].