

## **IFRS Sustainability Disclosure Standard IFRS S2**

# Climate-related Disclosures

**June 2023**

### **ACCOMPANYING GUIDANCE**

**Illustrative Guidance**

**Illustrative Examples**

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## IFRS S2 ACCOMPANYING GUIDANCE

### CONTENTS

*from paragraph*

#### **ILLUSTRATIVE GUIDANCE**

#### **ILLUSTRATIVE EXAMPLES**

#### **Aggregation and disaggregation of greenhouse gas emissions** **IE2**

Example 1—Disaggregating Scope 1 and Scope 2 greenhouse gas emissions between the consolidated accounting group and other investees **IE3**

Example 2— Disaggregating Scope 3 greenhouse gas emissions by Scope 3 categories **IE6**

Example 3—Disaggregating greenhouse gas emissions by constituent greenhouse gases **IE13**

Disaggregating financed emissions in asset management **IE25**

Example 4—Disaggregation by active and passive strategy **IE26**

Example 5—Disaggregation by asset class **IE33**

#### **INDUSTRY-BASED GUIDANCE ON IMPLEMENTING IFRS S2**

#### **Introduction** **IB1**

#### **Structure and terminology** **IB3**

#### **Application** **IB5**

Materiality **IB5**

Selecting the appropriate industry (or industries) **IB8**

Compatibility with SASB Standards **IB10**

Identifying risks and opportunities and preparing disclosures **IB12**

Preparing information to fulfil cross-industry metric categories **IB14**

## IFRS S2 *Climate-related Disclosures*

### Illustrative Guidance

*This guidance accompanies, but is not part of, IFRS S2. It illustrates aspects of IFRS S2 but is not intended to provide interpretative guidance.*

IG1 Paragraph 29 of IFRS S2 requires an entity to disclose information relevant to particular cross-industry metric categories. These examples<sup>1</sup> provide an illustration of such information for the requirements in paragraph 29(b)–29(e) of IFRS S2.

Metric category	Unit of measure	Example metrics
Climate-related transition risks	amount and percentage	<ul style="list-style-type: none"> <li>• volume of real estate collaterals highly exposed to transition risk</li> <li>• concentration of credit exposure to carbon-related assets</li> <li>• percentage of revenue from coal mining</li> <li>• percentage of revenue passenger kilometres not covered by the Carbon Offsetting and Reduction Scheme for International Aviation</li> </ul>
Climate-related physical risks	amount and percentage	<ul style="list-style-type: none"> <li>• proportion of property, infrastructure or other alternative asset portfolios in areas subject to flooding, heat stress or water stress</li> <li>• proportion of real assets exposed to climate-related hazards</li> <li>• number and value of mortgage loans in 100-year flood zones</li> <li>• wastewater treatment capacity located in 100-year flood zones</li> <li>• revenue associated with water withdrawn and consumed in regions of high or extremely high baseline water stress</li> </ul>

*continued...*

<sup>1</sup> Based on the Task Force on Climate-related Financial Disclosures Guidance on Metrics, Targets, and Transition Plans: *Chapter C—Climate-Related Metrics* (2021).

## IFRS S2 ACCOMPANYING GUIDANCE

*...continued*

Metric category	Unit of measure	Example metrics
Climate-related opportunities	amount and percentage	<ul style="list-style-type: none"> <li>• revenues from products or services that support the transition to a lower-carbon economy</li> <li>• net premiums written related to energy efficiency and lower-carbon technology</li> <li>• number of (1) zero-emissions vehicles, (2) hybrid vehicles and (3) plug-in hybrid vehicles sold</li> <li>• proportion of homes delivered certified to a third-party, multi-attribute, green-building standard</li> </ul>
Capital deployment	presentation currency	<ul style="list-style-type: none"> <li>• percentage of annual revenue invested in research and development of lower-carbon products/services</li> <li>• percentage of investment in climate adaptation measures (for example, soil health, irrigation and technology)</li> </ul>

## Illustrative Examples

*These examples accompany, but are not part of, IFRS S2. They illustrate aspects of IFRS S2 but are not intended to provide interpretative guidance.*

- IE1 These examples set out hypothetical situations illustrating how an entity might apply some of the requirements in IFRS S2. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific industries illustrated. For illustrative purposes, the examples use simple fact patterns. When making disclosures in accordance with IFRS S2, an entity would need to consider all relevant facts and the specific circumstances of a particular fact pattern.

## Aggregation and disaggregation of greenhouse gas emissions

- IE2 Examples 1–5 illustrate some considerations when determining if it is necessary to disaggregate information when disclosing greenhouse gas emissions in accordance with the requirements of IFRS S2. These examples do not illustrate all reasons that could be necessary to disaggregate information when disclosing greenhouse gas emissions. Where relevant, these examples refer to IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1), the *Industry-based Guidance on Implementing IFRS S2* and the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (GHG Protocol Corporate Standard).

### **Example 1—Disaggregating Scope 1 and Scope 2 greenhouse gas emissions between the consolidated accounting group and other investees**

- IE3 Example 1 illustrates the requirements in paragraph 29(a)(i)–(iv) to disclose and disaggregate Scope 1 and Scope 2 greenhouse gas emissions between an entity's consolidated accounting group and its investees not included in the consolidated accounting group.
- IE4 The entity applies the equity share approach, as outlined in the GHG Protocol Corporate Standard, to set its organisational boundary for the purposes of measuring its greenhouse gas emissions. The entity applies IFRS Accounting Standards and has one investment that it accounts for as an investment in an associate. Applying the equity share approach, the entity determines its Scope 1 greenhouse gas emissions to be 7,350 metric tonnes CO<sub>2</sub> equivalent (CO<sub>2</sub>e), and its Scope 2 greenhouse gas emissions to be 1,320 CO<sub>2</sub>e.
- IE5 Table 1 illustrates the disaggregation of the total Scope 1 and Scope 2 greenhouse gas emissions disclosed by the entity when it applies paragraph 29(a)(iv).

## IFRS S2 ACCOMPANYING GUIDANCE

**Table 1: Disaggregation of Scope 1 and Scope 2 greenhouse gas emissions between the consolidated accounting group and the other investee**

	Greenhouse gas emissions (metric tonnes CO <sub>2</sub> e)		
	Scope 1	Scope 2	Total
	Consolidated accounting group	4,900	830
Other investee (investment in associate)	2,450	490	2,940
<b>Total disclosed (equity share method)</b>	<b>7,350</b>	<b>1,320</b>	<b>8,670</b>

### **Example 2—Disaggregating Scope 3 greenhouse gas emissions by Scope 3 categories**

- IE6 Example 2 illustrates the disaggregation of Scope 3 greenhouse gas emissions in accordance with paragraph 29(a)(i)(3) and paragraph 29(a)(vi), applying the principles of aggregation and disaggregation set out in IFRS S1 (paragraphs B29–B30). For simplicity, this example illustrates only an entity’s considerations related to how it presents its disclosures of Scope 3 greenhouse gas emissions from purchased goods and services (Category 1) and its Scope 3 greenhouse gas emissions from use of sold products (Category 11).
- IE7 An entity applies paragraph B32 of IFRS S2. It measures its Scope 3 greenhouse gas emissions from purchased goods and services and use of products sold in accordance with the GHG Protocol Corporate Standard. The entity considers whether disaggregation of its Category 1 and Category 11 Scope 3 greenhouse gas emissions is required to meet the requirements in IFRS S1 (paragraphs B29–B30).
- IE8 In relation to Category 1—purchased goods and services, the entity considers that:
- (a) its greenhouse gas emissions in relation to this category account for 60% of its total disclosed Scope 1, Scope 2 and Scope 3 greenhouse gas emissions;
  - (b) it has committed to achieving a greenhouse gas emissions reduction target by 20Y0, and reducing Category 1 greenhouse gas emissions is a priority to achieving this target;
  - (c) it has set specific greenhouse gas emissions reduction targets for reducing Category 1 greenhouse gas emissions; and
  - (d) its supply chain is located in jurisdictions with nationally determined contributions, and, as a result, suppliers are subject to increasingly strict emissions-related regulations and taxation policies.

IFRS S2 CLIMATE-RELATED DISCLOSURES—JUNE 2023

- IE9 In relation to Category 11—use of sold products, the entity considers that:
- (a) it has a three-year plan to improve the emission efficiency of its products that will reduce the greenhouse gas emissions arising when customers use the products the entity sells (use-phase emissions); and
  - (b) its greenhouse gas emissions in this category account for more than 25% of its total disclosed Scope 1, Scope 2 and Scope 3 greenhouse gas emissions.

IE10 Although IFRS S2 does not explicitly require disaggregation of Scope 3 greenhouse gas emissions by category, the entity considers the requirement in IFRS S1 that prohibits information from being aggregated if doing so would obscure information that is material.

IE11 For the reasons outlined in paragraphs IE8–IE10, the entity determines that disaggregating information about its Scope 3 Category 1 greenhouse gas emissions and its Scope 3 Category 11 greenhouse gas emissions is necessary to provide material information to users of general purpose financial reports.

IE12 The entity decides to include a table to supplement the disclosure of its Scope 3 greenhouse gas emissions, as illustrated in Table 2.

**Table 2: Disclosure excerpt of Scope 3 greenhouse gas emissions disaggregated between Category 1 and Category 11**

	Greenhouse gas emissions (metric tonnes CO <sub>2</sub> e)	
	20X1	20X0
Category 1—Purchased goods and services	34,000	35,000
Category 11—Use of sold products	13,000	14,600

**Example 3—Disaggregating greenhouse gas emissions by constituent greenhouse gases**

IE13 Examples 3A and 3B illustrate the disaggregation of an entity’s absolute greenhouse gas emissions by constituent greenhouse gases. Although IFRS S2 does not explicitly require such disaggregation, an entity is required to apply the principles of aggregation and disaggregation set out in IFRS S1 (paragraphs B29–B30).

**Example 3A: Disaggregation of Scope 1 greenhouse gas emissions by constituent gas**

IE14 For simplicity, this example illustrates only an entity’s considerations related to methane emissions. Considerations related to other constituent gases are ignored.



IFRS S2 ACCOMPANYING GUIDANCE

- IE15 An entity operates in the oil and gas industry. It measures its Scope 1 greenhouse gas emissions in accordance with the GHG Protocol Corporate Standard. The entity considers how to disclose information about its Scope 1 greenhouse gas emissions. In making its decision, the entity considers that:
- (a) a jurisdiction in which it operates has introduced stringent regulations on the oil and gas industry relating to methane emissions arising from production;
  - (b) the entity is required to refer to and consider the applicability of *Volume 11—Oil & Gas Exploration & Production* of the *Industry-based Guidance on Implementing IFRS S2*, which includes guidance on the separate disclosure of percentage of gross global Scope 1 greenhouse gas emissions from methane emissions;
  - (c) the entity’s risk function has determined that Scope 1 methane emissions from oil and gas production is widely scrutinised by regulators and, if not managed, could pose high reputational and regulatory risks; and
  - (d) the entity has made process improvements to reduce Scope 1 methane emissions, thus reducing the risk of potential regulatory liabilities.
- IE16 Although IFRS S2 does not explicitly require disaggregation by constituent greenhouse gases, the entity considers the requirement in IFRS S1 that prohibits information from being aggregated if doing so would obscure information that is material.
- IE17 For the reasons outlined in paragraphs IE15 and IE16, the entity determines that disaggregating information about its Scope 1 methane emissions is necessary to provide material information to users of general purpose financial reports.
- IE18 The entity discloses its greenhouse gas emissions in accordance with paragraph 29(a) of IFRS S2 and decides to include a table to supplement the disclosure of its Scope 1 greenhouse gas emissions, as illustrated in Table 3.

**Table 3: Disclosure excerpt of Scope 1 greenhouse gas emissions disaggregated by constituent gas**

	Greenhouse gas emissions (metric tonnes CO <sub>2</sub> e)	
	20X1	20X0
Methane	23,000	24,000

**Example 3B: Disaggregation of a Scope 3 category by constituent gases**

- IE19 For simplicity, this example illustrates only an entity’s considerations related to its use-phase emissions (Scope 3 Category 11), and, specifically, its CO<sub>2</sub> and nitrogen oxide (N<sub>2</sub>O) emissions. Considerations related to other Scope 3 categories and other constituent gases are ignored.

## IFRS S2 CLIMATE-RELATED DISCLOSURES—JUNE 2023

- IE20 An entity operates in the automobile industry. It measures its Scope 3 greenhouse gas emissions in accordance with the GHG Protocol Corporate Standard. The entity considers how to disclose information about its use-phase emissions (Scope 3 Category 11 greenhouse gas emissions). In making its decision, the entity considers that a substantial proportion of these greenhouse gas emissions occurs from combustion and tailpipe emissions when the cars are driven on the road. These use-phase emissions—specifically, CO<sub>2</sub> and N<sub>2</sub>O—are subject to stringent regulation in several important jurisdictions where the entity's cars are sold. Based on this consideration, the entity determines that information about its use-phase emissions is material.
- IE21 The entity then also considers circumstances related to CO<sub>2</sub> and N<sub>2</sub>O emissions, including:
- (a) government-funded subsidies have been introduced in important market jurisdictions and will be available to entities in the automotive industry. The subsidies will fund the production of vehicles that emit lower levels of N<sub>2</sub>O. Therefore, the entity is incentivised to produce vehicles that meet the N<sub>2</sub>O emissions limits in these jurisdictions.
  - (b) the entity is required to refer to and consider the applicability of *Volume 63—Automobiles* of the *Industry-based Guidance on Implementing IFRS S2* that includes metrics for sales-weighted average passenger fleet fuel economy, including the grams of CO<sub>2</sub> per kilometre for passenger cars.
  - (c) the entity is required to refer to and consider the applicability of *Volume 63—Automobiles* of the *Industry-based Guidance on Implementing IFRS S2* that includes guidance on the separate disclosure of information about the entity's strategy for reducing use-phase emissions such as CO<sub>2</sub> and N<sub>2</sub>O, volatile organic compounds and particulate matter.
  - (d) the entity measures, manages and monitors use-phase CO<sub>2</sub> and N<sub>2</sub>O emissions when designing and manufacturing its vehicles. It has set internal targets for greenhouse gas emissions reduction and a portion of the executive team's variable remuneration is linked to achieving these targets.
- IE22 Although not explicitly required by IFRS S2 to disaggregate Scope 3 Category 11 greenhouse gas emissions by constituent greenhouse gases, the entity considers the requirement in IFRS S1 that prohibits information from being aggregated if doing so would obscure information that is material.

## IFRS S2 ACCOMPANYING GUIDANCE

IE23 For the reasons outlined in paragraphs IE20–IE22, the entity determines that disaggregating information about use-phase CO<sub>2</sub> and N<sub>2</sub>O emissions is necessary to provide material information to users of general purpose financial reports.

IE24 The entity discloses its greenhouse gas emissions in accordance with paragraph 29(a) of IFRS S2 and decides to include a table to supplement the disclosure of its Scope 3 greenhouse gas emissions, as illustrated in Table 4.

**Table 4: Disclosure excerpt of Scope 3 Category 11 greenhouse gas emissions disaggregated by constituent gases**

	Greenhouse gas emissions (metric tonnes CO <sub>2</sub> e)	
	20X1	20X0
Carbon dioxide	46,000	48,000
Nitrogen oxide	1,000	1,020

### Disaggregating financed emissions in asset management

IE25 Examples 4–5 illustrate how an entity with asset management operations might disaggregate the Scope 3 greenhouse gas emissions of its portfolios (Category 15) when it applies the requirements in IFRS S2 (paragraph B61) and the principles of aggregation and disaggregation in IFRS S1 (paragraphs B29–B30) to disclose the greenhouse gas emissions associated with total assets under management (AUM).

#### Example 4—Disaggregation by active and passive strategy

IE26 An asset manager manages CU11 billion in seven corporate bond portfolios.<sup>2</sup> Table 5 sets out details about the portfolios.

**Table 5: Asset Manager AUM by portfolio and strategy**

Portfolio name	Strategy	AUM (in CU)
Fund A	Active Corporate Bond	1.9bn
Fund B	Active Corporate Bond	1.9bn
Fund C	Active Corporate Bond	2.2bn
Fund D	Passive Corporate Bond	1.5bn
Fund E	Passive Corporate Bond	1.3bn
Fund F	Passive Corporate Bond	1.05bn
Fund G	Passive Corporate Bond	1.15bn

<sup>2</sup> In this guidance, monetary amounts are denominated in currency units (CU).

## IFRS S2 CLIMATE-RELATED DISCLOSURES—JUNE 2023

- IE27 As an asset manager, the entity is required by IFRS S2 to provide information about the greenhouse gas emissions associated with its total AUM. The entity calculates the greenhouse gas emissions associated with its seven corporate bond portfolios and includes the portfolio emissions for 98% of its total AUM in its calculation. The remaining 2% of its total AUM, or CU220 million, is cash. The entity does not disclose any portfolio emissions associated with this cash. The entity discloses Scope 1, Scope 2 and Scope 3 greenhouse gas emissions at the total AUM level.
- IE28 The entity considers how to disclose information about its financed emissions. In making its decision, the entity considers that:
- (a) the entity's portfolios within each of the active and passive strategy groupings are highly similar in their composition and risk exposure.
  - (b) the active strategies have higher total fees than the passive strategies and contribute significantly more to the entity's revenue. This dynamic is not expected to change.
  - (c) the greenhouse gas emissions of its active strategies are significantly lower than those of its passive strategies.
- IE29 Additionally, the portfolio emissions of the entity's active strategies better reflect its climate-related risk analysis because the entity's passive strategies track the performance and holdings of a benchmark, whereas its active strategies seek to outperform a benchmark. While both strategies face the risk of poor performance, the entity also identifies differing risk exposures between active and passive strategies as its active strategies may face outflows from underperforming a benchmark, but those strategies also have greater flexibility in managing or reducing their financed emissions compared to the entity's passive strategies.
- IE30 Although IFRS S2 does not explicitly require disaggregation of an entity's financed emissions by active and passive strategies, the entity considers the requirement in IFRS S1 that prohibits information from being aggregated if doing so would obscure information that is material.
- IE31 For the reasons outlined in paragraphs IE28–IE30, the entity decides that disaggregating information about its financed emissions, specifically related to active and passive strategies, is necessary to provide material information to users of general purpose financial reports.
- IE32 The entity disaggregates its portfolio emissions by active and passive strategies, as illustrated in Table 6.

IFRS S2 ACCOMPANYING GUIDANCE

**Table 6: Financed emissions disclosure disaggregated between active and passive strategies**

	Financed emissions (metric tonnes CO <sub>2</sub> e)		
	Active strategies	Passive strategies	Total
Scope 1	12,880,551	27,300,950	40,181,501
Scope 2	2,983,115	8,120,335	11,103,450
Scope 3	43,771,005	103,799,005	147,570,010
<b>Total disclosed</b>	<b>59,634,671</b>	<b>139,220,290</b>	<b>198,854,961</b>
AUM (in CU) included	5.88bn	4.9bn	10.78bn
% of total AUM included (% of strategy-specific AUM included)	53.5% (98%)	44.5% (98%)	98% (N/A)

Note A: 2.0% of AUM, or CU220 million, is excluded from the financed emissions calculation, which represents cash held in the funds.

**Example 5—Disaggregation by asset class**

IE33 An asset manager manages CU60 billion in eight long-term bond and equity portfolios. Table 7 sets out details about the portfolios.

**Table 7: Asset manager AUM by portfolio and asset class**

Portfolio name	Asset class	AUM (in CU)
Fund A	Long-term bond	6.8bn
Fund B	Long-term bond	6.9bn
Fund C	Long-term bond	8.9bn
Fund D	Equity (publicly traded)	6bn
Fund E	Equity (publicly traded)	6bn
Fund F	Equity (publicly traded)	7.9bn
Fund G	Equity (publicly traded)	8.6bn
Fund H	Equity (publicly traded)	8.9bn

IE34 As an asset manager, the entity is required by IFRS S2 to provide information about the greenhouse gas emissions associated with its total AUM. The entity calculates the emissions associated with its eight portfolios and includes the financed emissions for 98% of its total AUM in its calculation. The remaining 2% of AUM, or CU1.2bn, is cash. The entity does not disclose any financed emissions associated with this cash. The entity discloses these greenhouse gas emissions by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions at the total AUM level.

## IFRS S2 CLIMATE-RELATED DISCLOSURES—JUNE 2023

- IE35 The entity considers how to disclose information about its financed emissions. In making its decision, the entity considers that:
- (a) the long-term bond portfolios seek long-term capital appreciation (average holding period of seven years) and the publicly traded equity portfolios seek short-term capital appreciation (average holding period of nine months).
  - (b) its assessment of the climate-related risks affecting these two asset classes differs because each asset class is affected differently by climate-related risks and opportunities.
  - (c) the entity's portfolios within each asset class are similar in their composition and risk exposure to the entity's other portfolios within the same asset class. This is true for both asset classes: long-term bonds and publicly traded equities.
- IE36 Although IFRS S2 does not explicitly require disaggregation of an entity's financed emissions by long-term bonds and publicly traded equities, the entity considers the requirement in IFRS S1 that prohibits information from being aggregated if doing so would obscure information that is material.
- IE37 For the reasons outlined in paragraphs IE35–IE36, the entity decides that disaggregating information about its financed emissions, specifically related to long-term bonds and publicly traded equities, is necessary to provide material information to users of general purpose financial reports.
- IE38 The entity disaggregates its financed emissions by asset class, as illustrated in Table 8.

**Table 8: Financed emissions disclosure disaggregated by asset class**

	Financed emissions (metric tonnes CO <sub>2</sub> e)		
	Long-term bonds	Publicly traded equities	Total
Scope 1	48,600,415	101,487,332	150,087,747
Scope 2	33,805,025	27,187,765	60,992,790
Scope 3	159,615,008	301,001,718	460,616,726
<b>Total reported</b>	<b>242,020,448</b>	<b>429,676,815</b>	<b>671,697,263</b>
AUM (in CU) included	22.15bn	36.65bn	58.8bn
% of total AUM included (% of asset class-specific AUM included)	36.9% (98%)	61.1% (98%)	98% (N/A)

**Note A:** 2.0% of AUM, or CU1.2bn, is excluded from the financed emissions calculation, which represents cash held in the funds.