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Need to know

ISSB proposes amendments to IFRS S2 regarding specific greenhouse gas emissions disclosure requirements

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This *Need to know* outlines the proposed amendments to IFRS S2 *Climate-related Disclosures* set out in Exposure Draft (ED) *Amendments to Greenhouse Gas Emissions Disclosures*, published by the International Sustainability Standards Board (ISSB) on 28 April 2025.

- The ISSB proposes targeted amendments to IFRS S2 to provide additional relief and clarify existing relief from specific greenhouse gas (GHG) emissions disclosure requirements
- Specifically, the ISSB proposes amendments to IFRS S2 to:
  - permit entities to exclude Scope 3 Category 15 GHG emissions associated with derivatives, facilitated emissions and insurance-associated emissions from the measurement and disclosure of Scope 3 Category 15 GHG emissions
  - provide relief from using the Global Industry Classification Standard (GICS) in some circumstances
  - clarify that the existing relief for an entity that is required by a jurisdictional authority or exchange on which it is listed to use a method for measuring GHG emissions other than the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)* (GHG Protocol), is also available when such a requirement applies only to a part of the entity
  - permit the use of global warming potential (GWP) values that are not from the latest Intergovernmental Panel on Climate Change (IPCC) assessment if an entity, or part of an entity, is required by a jurisdictional authority or exchange on which it is listed to use those GWP values
- The comment period for the exposure draft ends on 27 June 2025.

For more information please see the following websites:

www.ukaccountingplus.co.uk
www.deloitte.co.uk

Background

The ISSB is supporting the implementation of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2. This includes public discussions of issues raised by stakeholders in the Transition Implementation Group on IFRS S1 and IFRS S2 (TIG). The ISSB considered application challenges identified through the work of the TIG and through its stakeholder engagement activities.

In response to these application challenges, the ISSB decided to propose targeted amendments to IFRS S2 that aim at reducing the complexity, risk of potential duplication of reporting and related costs of applying specific requirements in IFRS S2.

UK implications

The UK government intends to adopt the ISSB standards for use in the UK in the form of UK Sustainability Reporting Standards (UK SRSs) following a formal assessment of the standards. This assessment involves two advisory committees: the Policy Implementation Committee (PIC) responsible for considering public policy; and the Technical Advisory Committee (TAC), supported by the Financial Reporting Council (FRC), responsible for considering how the standards will sit alongside existing UK reporting requirements. The assessment is substantially complete, and the UK Government is expected to consult on UK SRS shortly and an endorsement decision is expected in 2025. It is not clear at this time whether and how the UK Government will reflect the proposed amendments to IFRS S2 in UK SRS.

For more information on UK SRS please refer to our publication ***Closing Out—Areas of Focus for Corporate Reporting***.

The proposed amendments

Measurement and disclosure of Scope 3 Category 15 GHG emissions

The ISSB proposes to permit an entity to limit its disclosure of Scope 3 Category 15 GHG emissions to financed emissions, as defined in IFRS S2 (i.e. those emissions attributed to loans and investments made by an entity to an investee or counterparty). Consequently, entities would be permitted to exclude emissions associated with derivatives, facilitated emissions or insurance-associated emissions from its disclosure of Scope 3 GHG emissions. Entities would still be allowed to provide these disclosures on a voluntary basis.

An entity that excludes such emissions would be required to disclose the amount of derivatives and other financial activities it excluded and to explain what it treats as a derivative for the purposes of limiting its disclosure of Scope 3 Category 15 GHG emissions.

Observation

The requirement for an entity to explain what it treats as a derivative has been proposed because the term 'derivative' is not defined in IFRS Sustainability Disclosure Standards. As a result, an entity is required to apply judgement to determine what it treats as a derivative. The ISSB considered but decided against defining the term 'derivative' in IFRS S2. Although IFRS Accounting Standards and other generally accepted accounting principles and practices provide definitions of derivatives, the ISSB believes that using those definitions for the purposes of GHG emissions measurement might introduce unintended complexity.

Use of GICS in applying specific requirements related to financed emissions

Entities with commercial banking or insurance activities are required to disclose additional information about their financed emissions. These entities are required to use GICS for classifying counterparties when disaggregating their financed emissions information.

The ISSB proposes the following relief from using GICS. An entity would be required to classify counterparties using:

(a) GICS, if the entity, or part of the entity, uses GICS in any part of the entity to classify its lending and investment activities at the reporting date

(b) if the entity does not meet the condition in (a), an alternative industry-classification system that the entity, or part of the entity, is required to use to classify its lending and investment activities for reporting climate-related financial information by a jurisdictional authority or an exchange on which it is listed[1]

(c) if the entity does not meet the condition in (a) or (b), an alternative industry-classification system that the entity, or part of the entity, is required to use to classify its lending and investment activities for financial reporting purposes by a jurisdictional authority or an exchange on which it is listed[1]

(d) if the entity does not meet the conditions in (a), (b) or (c), an industry-classification system of the entity's choice that enables it to provide disaggregated financed emissions information in a manner that is useful to users of general purpose financial reports.

1. If the entity is subject to multiple jurisdictional or exchange requirements and uses more than one industry-classification system for such purposes, the entity would be required to select one classification system to use

The ISSB also proposes to require an entity to disclose the industry-classification system used to disaggregate its financed emissions information and, if the entity does not use GICS, to explain the basis for its industry-classification system selection.

Observation
The proposed requirement to use GICS under (a) above would apply in circumstances when any part of an entity uses GICS for the purposes of classifying its lending or investment activities. The ISSB considered to limit the requirement to use GICS to circumstances when an entity as a whole uses GICS. However, the ISSB was concerned that in practice very few entities would be required to apply GICS for the purposes of providing this disaggregated information, which would adversely affect comparability.

Jurisdictional relief from using the GHG Protocol
The ISSB proposes to amend IFRS S2 to clarify that the existing relief for an entity that is required by a jurisdictional authority or exchange on which it is listed to use a method for measuring GHG emissions other than the GHG Protocol, is also available when such a requirement applies only to a part of the entity. However, in that case, the relief would only be available for the relevant part of the entity and only for as long as that requirement is applicable.

Applicability of jurisdictional relief for global warming potential values
In a similar vein, the ISSB proposes that if an entity is required, in whole or in part, by a jurisdictional authority or exchange on which it is listed to use global warming potential (GWP) values that are not by the latest Intergovernmental Panel on Climate Change (IPCC) assessment, the entity would be permitted to use the GWP values required by such a jurisdictional authority or an exchange for the relevant part of the entity, for as long as that requirement is applicable.

Observation
The ISSB decided not to propose additional disclosure requirements for entities that apply this proposed additional relief. The ISSB noted that an entity is already required to disclose the measurement approach, inputs and assumptions it has used to measure its GHG emissions. Therefore, an entity might consider whether information about the GWP values used is relevant to this disclosure. This might include, for example a description of the GWP values used or an explanation of why the entity has not used the GWP values from the latest IPCC assessment.

Effective date and comment period
The ED does not propose an effective date. The effective date will be decided when the ISSB redeliberates the proposals.

The comment period for the ED ends on 27 June 2025.

Further information
If you have any questions about the proposed amendments, please speak to your usual Deloitte contact.

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