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Exposure Draft

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[Draft] IFRS S2 Climate-related Disclosures

Comments to be received by 29 July 2022

International Sustainability Standards Board

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Exposure Draft

Climate-related Disclosures

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[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*.

[Draft] IFRS S2 *Climate-related Disclosures*

Objective

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

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

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;

(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

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).

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:

(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.

(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

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

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:

(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_2 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_2 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*

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.

Absolute target A target defined by a change in absolute emissions over time, for example, reducing CO_2 emissions by 25% below 1994 levels by 2010.

Carbon offset 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.

Certified carbon offset Certified carbon offset credits are **carbon offsets** 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_2, or an equivalent amount of other **greenhouse gases**.

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.

Climate resilience The capacity of an entity to adjust to uncertainty related to climate change. This involves the capacity to manage **climate-related risks** and benefits from **climate-related opportunities**, including the ability to respond and adapt to **transition risks** and **physical risks**.

Climate-related scenario analysis 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 **physical risks** and **transition risks** of climate change may affect its businesses, strategies and financial performance over time.

Climate-related risks and opportunities Climate-related risks refer to the potential negative effects of climate change on an entity. **Physical risks** 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 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.

CO_2 equivalent	The universal unit of measurement to show the global warming potential of each of the seven **greenhouse gases**, 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 **greenhouse gas** against a common basis.
Greenhouse gases	The seven greenhouse gases listed in the Kyoto Protocol–carbon dioxide (CO_2); methane (CH_4); nitrous oxide (N_2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF_3); perfluorocarbons (PFCs); and sulphur hexafluoride (SF_6).
Greenhouse Gas Protocol Corporate Standard	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 **greenhouse gas** accounting and reporting standards for business and to promote their broad adoption. The Greenhouse Gas Protocol Corporate Standard provides standards and guidance for companies and other types of organisations preparing a **greenhouse gas** emissions inventory. It covers the accounting and reporting of the seven **greenhouse gases** covered by the Kyoto Protocol.
Intensity target	A target defined by a change in the ratio of emissions to a business metric over time, for example, reduce CO_2 per tonne of cement by 12% by 2008.
Internal carbon price	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).
Latest international agreement on climate change	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 **greenhouse gases**.
Legacy asset	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.
Physical risks	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.
Scope 1 emissions	Direct **greenhouse gas** 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.
Scope 2 emissions	Indirect **greenhouse gas** 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.
Scope 3 emissions	Indirect emissions outside of **Scope 2 emissions** that occur in the **value chain** 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):

(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

Business model 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.

Disclosure topic 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.

Enterprise value 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.

General purpose financial reporting 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:

(a) buying, selling or holding equity and debt instruments;

(b) providing or selling loans and other forms of credit; or

(c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

General purpose financial reporting encompasses—but is not restricted to—an entity's general purpose financial statements and sustainability-related financial disclosures.

Users Existing and potential investors, lenders and other creditors.

Value chain The full range of activities, resources and relationships related to a reporting entity's **business model** and the external environment in which it operates.

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.

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

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

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

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® (SICS®). 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.[4]

4 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.

Example
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.

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.

Example
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.

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:

(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
Consumer Goods	
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	

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SICS® sector and industry	Volume
Extractives & Minerals Processing	
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)
Financials	
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	
Food & Beverage	
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	
Health Care	
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)

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SICS® sector and industry	Volume
Infrastructure	
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)
Renewable Resources & Alternative Energy	
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)
Resource Transformation	
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)
Services	
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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SICS® sector and industry	Volume
Technology & Communications	
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)
Transportation	
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

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

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