

Final Comment Letter on ISSB proposed amendments to IFRS S2

International Sustainability Standard Board
26 June 2025

Dear Mr Faber,

**Re: EFRAG's Comment Letter to the ISSB ED/2025/1 Amendments to Greenhouse Gas
Emissions Disclosures – Proposed amendments to IFRS S2**

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the IFRS's "Amendments to Greenhouse Gas Emissions Disclosures – Proposed amendments to IFRS S2" issued by the ISSB in April 2025 (the "ED").

This letter aims to contribute to the ISSB's due process, in consideration of the applicability of the IFRS S2 to preparers that comply with ESRS, as source of industry specific guidance.

EFRAG supports the proposal to permit omitting the disclosure of emissions associated with derivatives in IFRS S2, however it recommends granting such permission as a temporary provision (not a permanent exemption), to be reviewed reflecting possible changes in reporting practice and evolution of methodologies. In addition, EFRAG recommends clarifying the definition of facilitated emissions, as the scope can be very broad.

For insured emissions, EFRAG supports the proposed relief. EFRAG also notes that there is an ongoing debate in the EU at industry level on:

- a) the relevance of disclosing insured emissions;
- b) the maturity of available methodology for calculating insured emissions on underwriting portfolios for the different lines of the insurance business;
- c) the availability of data that is needed to measure such emissions in a comparable way.

In addition, our observation is that this is an evolutionary practice, and a number of significant insurance companies are already disclosing this information. In light of these developments, EFRAG suggests the ISSB consider establishing an explicit time limit provision for a review such as in the next five years. This would allow a systematic reflection of the progress observed in the market.

EFRAG accepts the relief proposed from using GICS as industry classification, however it notes that reliance on GICS alone does not solve the comparability issue, as several other market classifications exist. EFRAG urges the ISSB to further work on connecting the aim of the reporting (i.e. feeding in with credit risk analysis or steering capital flows) with the different sector classifications that currently exist. EFRAG is also concerned by the costs associated to GICS as it is beyond payment wall.

EFRAG appreciates the flexibility to apply appropriate carbon accounting methodologies and supports the use of different calculation methods if required by local jurisdictions or exchanges. We refer to the IPCC's latest guidance for using GWP over a 100-year timescale but advise that any deviations be properly disclosed to maintain comparability.

EFRAG's detailed comments and responses to the ED's questions are in the Appendices 1.

For further discussion, please contact the EFRAG Secretariat or me.

Yours sincerely,

Patrick de Cambourg

Chair of the EFRAG SRB

A handwritten signature in black ink, reading "Patrick de Cambourg". The signature is written in a cursive style with a long, sweeping underline.

Appendix 1- EFRAG's responses to the questions raised in the ED

Question 1—Measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions

The ISSB proposes to permit entities to limit their disclosure of Scope 3 Category 15 greenhouse gas emissions. This limitation would permit entities to exclude some of their Scope 3 Category 15 greenhouse gas emissions, including those emissions associated with derivatives, facilitated emissions and insurance-associated emissions, when measuring and disclosing Scope 3 greenhouse gas emissions in accordance with paragraph 29(a)(i)(3) of IFRS S2.

- (a) The ISSB proposes to add paragraph 29A(a), which would permit an entity to limit its disclosure of Scope 3 Category 15 greenhouse gas emissions to financed emissions, as defined in IFRS S2 (being those emissions attributed to loans and investments made by an entity to an investee or counterparty). For the purposes of the limitation, the proposed paragraph 29A(a) would expressly **permit an entity to exclude greenhouse gas emissions associated with derivatives**. Consequently, this paragraph would permit an entity to exclude emissions associated with derivatives, facilitated emissions or insurance-associated emissions from its disclosure of Scope 3 greenhouse gas emissions.

The proposed amendment would not prevent an entity from choosing to disclose greenhouse gas emissions associated with derivatives, facilitated emissions or insurance-associated emissions should it elect to do so.

Paragraphs BC7–BC24 of the Basis for Conclusions describe the reasons for the proposed amendment.

Do you agree with the proposed amendment? Why or why not?

- (b) The ISSB also proposes to add paragraph 29A(b), which would require an entity that limits its disclosure of Scope 3 Category 15 greenhouse gas emissions, in accordance with the proposed paragraph 29A(a), to provide information that enables users of general purpose financial reports to understand the magnitude of the derivatives and financial activities associated with the entity's Scope 3 Category 15 greenhouse gas emissions that are excluded. Therefore, the ISSB proposes to add:

- paragraph 29A(b)(i) which would require an entity that has excluded derivatives from its measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions to disclose **the amount** of derivatives it excluded; and
- paragraph 29A(b)(ii) which would require an entity that has excluded **any other financial activities** from its measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions to disclose the amount of other financial activities it excluded.

The term 'derivatives' is not defined in IFRS Sustainability Disclosure Standards, and the ISSB does not propose to define this term. As a result, an entity is required to apply judgement to determine what it treats as derivatives

for the purposes of limiting its disclosure of Scope 3 Category 15 greenhouse gas emissions, in accordance with the proposed paragraph 29A(a). The proposed paragraph 29A(b)(i) would require an entity that has excluded derivatives from its measurement and disclosure of Scope 3 greenhouse gas emissions to explain the derivatives it excluded. In addition, the ISSB has not defined financial activities.

Paragraphs BC7–BC24 of the Basis for Conclusions describe the reasons for the proposed disclosure requirements.

Do you agree with the proposed disclosure requirements? Why or why not?

Notes to constituents

- *The International Sustainability Standards Board (ISSB) is proposing targeted amendments to IFRS S2 Climate-related Disclosures to provide additional relief and clarify existing relief from specific greenhouse gas emissions disclosure requirements.*
- *Specifically, the ISSB proposes to amend the requirements in IFRS S2 related to the measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions associated with derivatives and with specific financial activities related to investment banking (facilitated emissions) and insurance and reinsurance underwriting (insurance-associated emissions).*

Question 1 (a) - EFRAG's response

Derivatives

EFRAG supports the proposed amendments related to the disclosure of emissions associated to derivatives in IFRS S2. This is consistent with the fact that in general financial institutions currently do not report on emissions connected to derivatives. This is also due to the lack of a clear link between financial derivatives and the underlying emissions, except for some types of commodity derivatives. This is also consistent with the lack of commonly recognised methodologies for the calculation of emissions for derivatives. However, EFRAG would recommend the proposal to be reviewed to consider future technical developments.

Facilitated emissions for investment banking

EFRAG notes that the current content of IFRS 2 paragraphs B58-B63 covers the disclosure of financed emissions (for asset management, commercial banking and insurance) and it does not provide any reference to facilitated emissions, generally associated with the investment banking activities. EFRAG questions the appropriateness of a small amendment to IFRS S2, when in practice this amendment is providing an option to omit information about facilitated emissions of investment banking activities, which are not regulated by the current content of IFRS S2.

EFRAG further notes that the proposal allows to omit facilitated emissions of investment banking activities. This is a rather broad category of activities linked with the issuance of equity and debt instruments, with syndicated loans and advisory and mergers and acquisitions services. In

practice for some of these activities (e.g. syndicated loans) the reporting methodology is similar to the one adopted for financed emissions. EFRAG would suggest a more detailed definition of what is allowed to be omitted and why. In particular, there is no definition of “facilitated emission for investment management” in IFRS S2. This definition would be critical to understand what is under the scope of the permanent relief and the concepts to be included in relation to the amount to be disclosed (refer to question 1b)), especially when it comes to security lending.

Insurance associated emissions

- EFRAG agrees with the proposed option to omit insured emissions. However considering the ongoing developments in this reporting area, EFRAG suggests establishing an explicit time limit provision for a review, such as in the next five years, this would allow a systematic reflection of the progress observed in the market.

Developments in Europe have seen proposed legislation on climate-related targets and transition plans for insurance companies, whose main activity is the insurance underwriting, and we start to see companies setting up targets and reporting on them in their 2024 ESRS sustainability statements, despite a debate ongoing at industry level on how to enhance the calculation methodologies.

Considering that this is still a nascent area of reporting, permitting to permanently omit this information might not provide the right incentive to enhance reporting practices and monitor systematically the progress made.

In particular, a debate is currently taking place at industry level on the relevance of disclosing insured emissions. From one hand, the underwriting activities are core to the business model of insurers and therefore insured emissions may be relevant to users, however from the other hand discussions are ongoing on the resulting relevance given the level of influence that (re)insurers may have on their different types of policyholders (corporate, SME, individuals) and on the potential consequences of GHG target setting, due to the societal role of the insurers.

EFRAG also notes that the ED can be understood as an amendment that remedies the apparent contradiction between the IFRS S2 June 2023 Basis for conclusions (BC 127-129) and the IFRS S2 standard, as the technical analysis of such amendment for insured emissions is not described in the Basis for conclusions of the ED and notes that the ISSB Staff has not updated its analysis since 2022.

In this context, we note that no update on the technical analysis performed in 2022 by ISSB staff has been provided to further corroborate the appropriateness of the conclusions reached in the IFRS S2 BFC in June 2023 (and formalised now in this amendment); despite this being an area of rapid development.

With regards to the definition of insurance associated emissions, we note that this is not a defined term in IFRS S2. This definition would be critical to understand what is under the scope of the permanent relief and the concepts to be included in relation to the amount to be disclosed (refer to question 1b)).

Financed emissions

EFRAG notes that PCAF part A (financed emissions) has not been mentioned as a potential source and well established methodology to calculate the GHG financed emissions; this is referenced within ESRS E1 in order to enhance standardisation and comparability amongst reporting companies. PCAF part A is the common methodology generally applied by the financial undertakings to compute financed emissions.

With regard to the definition of financed emission, it is observed that the revised PCAF part A explicitly covers the following asset classes: listed equity and corporate bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages, motor vehicle loans and sovereign debts. Considering that ISSB does not explicitly mention “mortgages”, “commercial real estate”, “motor vehicle loans” as asset classes related to loans, this might create an area of uncertainty for those reporting companies that use PCAF part A as a reference methodology for disclosing financed emissions. A clarification of *the* perimeter of the term “*loans*” will enhance comparability while simultaneously facilitating the preparation of the disclosure.

We also note that the Defined terms in Appendix A of IFRS S2 includes a definition of financed emissions that has not been updated following the proposed amendments. In order to enhance consistency, EFRAG recommends ISSB to consider aligning the defined term with the definition of financed emissions in paragraph 29 (A) a.

Question 1 (b)

EFRAG notes that the IFRS S2 ED paragraph 29 (b) does not define ‘magnitude of derivatives’ as well as the ‘amount of derivatives’. As explained in the Basis for Conclusion, ISSB decided not to define derivatives to avoid additional complexity. Moreover, it does not define the notion of ‘magnitude’ as well as the ‘amount’ associated with derivatives. The magnitude or amount could be the revenues, the notional amount, the fair value or other financial indicators. The lack of definition of derivatives coupled with the disclosure of the amount of derivatives excluded from the scope 3 reporting could hinder the understanding of what the scope of the asset class and its value for this relief and transparency of the relief applied. In addition, it is noted that derivatives under the GHG Protocol are not limited to financial institutions and this relief could also be applied to non-financial companies that may need some further guidance on this point.

The point described above also applies to the facilitated emissions for investment banking.

EFRAG also notes that one of the aspects currently being debated by industry experts is whether insurance associated emissions should include claims related emissions

The lack of definition of the term poses a question about what the scope of the amount to be reported and may lead to information that it is not comparable amongst companies.

Another consideration is whether the disclosure of this amount would form part of a fair presentation regime whereby an amount defined by the company would be material information per se when the related emissions are considered not material. As an example, the disclosure of the total gross written premiums of a company may not be a relevant amount to explain why scope 3 insurance-related emissions have not been disclosed unless it is targeted to the relevant lines of business and customer segment for insurance companies, as defined by SBTi and PCAF

methodologies; therefore, such GWP information would not be material information, and might obscure the relevant scope 3 insurance related emissions for corporate clients or motor business.

Question 2 – Use of the Global Industry Classification Standard in applying specific requirements related to financed emissions

Paragraphs 29(a)(vi)(2) and B62–B63 of IFRS S2 require entities with commercial banking or insurance activities to disclose additional information about their financed emissions. These entities are required to use the Global Industry Classification Standard (GICS) for classifying counterparties when disaggregating their financed emissions information in accordance with paragraphs B62(a)(i) and B63(a)(i) of IFRS S2.

(a) The ISSB proposes to amend the requirements in paragraphs B62(a)(i) and B63(a)(i) of IFRS S2 and to add paragraphs B62A–B62B and B63A–B63B that would provide relief to an entity from using GICS in some circumstances. Under the proposals, an entity can use an alternative industry-classification system in some circumstances when disaggregating financed emissions information disclosed in accordance with paragraphs B62(a)–B62(b) and B63(a)–B63(b) of IFRS S2. Paragraphs BC25–BC38 of the Basis for Conclusions describe the reasons for the proposed amendment. Do you agree with the proposed amendment? Why or why not?

(b) The ISSB also proposes to add paragraphs B62C and B63C 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.

Paragraphs BC25–BC38 of the Basis for Conclusions describe the reasons for the proposed disclosure requirements.

Do you agree with the proposed disclosure requirements? Why or why not?

Notes to constituents

- *The ISSB is proposing to amend the requirements in IFRS S2 related to, amongst others, the use of the Global Industry Classification Standard in applying specific requirements related to the disclosure of information about financed emissions. Entities in the financial sector are more likely to be affected by these proposals than other entities by the proposed amendments related to the Scope 3 Category 15 greenhouse gas emissions disclosure requirements.*
- *Financial institutions are regulated entities, whether it is banks, insurers or investment firms. Most of them are subject to prudential requirements with their own reporting requirements, each with their own sector classifications. For banks, this prudential framework relies on three pillars: a) minimum capital requirements, b) supervisory review process and c) market discipline through reporting. References to Pillar 3 reporting below refer to this reporting framework.*

Question 2 (a) - EFRAG's response

Being in agreement with the argumentation provided in the Basis for Conclusions to the ED (BC28 and BC29) that banks are subject to their own prudential reporting requirements and the use of GICS would result in a duplication of those reporting efforts, EFRAG suggests to modify paragraph B62B to allow flexibility, replacing in sub-paragraph (b) the word 'and' with the word 'or' as follows:

“an industry-classification system that the entity or part of the entity uses for reporting climate-related financial information to meet a jurisdictional or exchange requirement, if (a) is not applicable or the entity or any part of the entity is required by a jurisdictional authority or an exchange on which it is listed to use that industry-classification system to classify its lending or investment activities at the reporting date. If the entity is subject to multiple jurisdictional or exchange requirements and uses more than one industry-classification system for such purposes, the entity shall select one classification system to use.”

EFRAG agrees with the concern raised in BC30 that this affects the comparability of the resulting reporting. The definition of financed emissions encompasses both “loans” and “investments” (see IFRS S2, Appendix A). In case of a banking group with investment activities it would imply that the loans are reported under one sector classification (prudential reporting such as Pillar 3) while the investments are reported under another sector classification (financial market reporting such as GICS). This may result in emissions from the same investee-undertaking being reported in different sectors depending on the financial instrument (loan or equity participation) being used.

EFRAG is also concerned that GICS is applied using a payment wall and such a use does raise costs for entities involved.

EFRAG further notes keeping the current text of IFRS S2 and thus reliance on GICS alone does not solve the comparability issue, as several other market classifications exist such as BICS (Bloomberg Industry Classification System), TRBC (Thomson Reuters Business Classification), ICB (Industry Classification Benchmark). In addition, the regulatory reporting (with international base: Basel requirements) has more affinity with other classifications such as ISIC (International Standard Industrial Classification) or NAICS (North American Industry Classification System). For European banks this results in a prudential reporting linked to the NACE classification, which connects to the international ISIC.

Thus, EFRAG urges the ISSB to develop detailed guidance, including mapping, so that financial groups (with both lending and investment activities) can report their financed emissions at consolidated level in a uniform way, irrespective of the type of financial instrument (loan or equity participation) used.

Question 2(b) – EFRAG's response

EFRAG notes that paragraphs B62C and B63C require further clarification. Is it sufficient for entities to mention “we use Pillar 3” or is a detailed comparison of the sector classification with the IFRS S2 benchmark GICS to be foreseen?

Question 3—Jurisdictional relief from using the GHG Protocol Corporate Standard

The ISSB proposes to amend paragraphs 29(a)(ii) and B24 of IFRS S2 to clarify the scope of the jurisdictional relief available if an entity is required by a jurisdictional authority or an exchange on which it is listed to use a method other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) to measure greenhouse gas emissions for a part of the entity. The amendment would clarify that this relief, which permits an entity to use a different method for measuring greenhouse gas emissions, is available for the relevant part of the entity when such a jurisdictional or exchange requirement applies to an entity in whole or in part, for as long as that requirement is applicable.

Paragraphs BC39–BC43 of the Basis for Conclusions describe the reasons for the proposed amendment.

Do you agree with the proposed amendment? Why or why not?

Notes to constituents

- *IFRS is allowing, with this amendment the use of a method other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (GHG Protocol Corporate Standard) for measuring GHG emissions, if a jurisdictional authority or an exchange on which an entity is listed requires the entity to use a measurement method other than the GHG Protocol Corporate Standard for a part of the entity.*
- *ESRS 1 Annex B, on qualitative characteristics of information, provides important principles and criteria to apply in the assessment of which calculation methodologies and which input data to use in the preparation of ESRS disclosures.*
- *ESRS E1 paragraph 44 requires the disclosure of gross Scope 3 GHG emissions, as well as the other two Scopes regarding GHG emissions, and ESRS E1 AR39 (a) states that ‘the undertaking shall consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004) ...’, which in this case also includes the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011 mentioned in ESRS E1 AR 46 (a)) as well as the ‘Technical guidance for calculating Scope 3 emissions’ (version 1.0).*
- *ESRS E1 paragraph AR 46 details other requirements related to the reporting of Scope 3 GHG emissions. In particular, ESRS E1 paragraph AR 46 (g) highlights the need to disclose the percentage of emissions calculated using primary data obtained from suppliers or other value chain partners by stating that: ‘disclose the extent to which the undertaking’s Scope 3 GHG emissions are measured using inputs from specific activities within the entity’s upstream and downstream value chain and disclose the percentage of emissions calculated using primary data obtained from suppliers or other value chain partners.’*

- *Other methodological details that go beyond the provisions included in the 'Technical guidance for calculating Scope 3 emissions' (version 1.0) are not provided within the ESRS. Additional provisions may be envisaged as part of future ESRS sector standards.*

EFRAG's response

EFRAG welcomes this amendment as it provides reporting undertaking with the flexibility to apply the appropriate carbon accounting methodology (this is also consistent with the answer provided by EFRAG in the public response to ESRS Q&A ID 167). In the response EFRAG articulated that the ESRS indeed sets reporting standards but do not prescribe detailed calculation methodologies.

Question 4—Applicability of jurisdictional relief for global warming potential values

The ISSB proposes to amend paragraphs B21–B22 of IFRS S2 to extend the jurisdictional relief in the Standard. 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 other than the GWP values that are required by paragraphs B21–B22 of IFRS S2, 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.

Paragraphs BC44–BC49 of the Basis for Conclusions describe the reasons for the proposed amendment.

Do you agree with the proposed amendment? Why or why not?

Notes to constituents

- *When expressing its GHG emissions, the preparer shall make it in units of tCO₂e, using the latest Global Warming Potential (GWP) values published by the IPCC based on a 100-year time horizon. CO₂e is the universal unit of measurement to indicate the global warming potential (GWP) of each greenhouse gas, expressed in terms of the GWP of one unit of carbon dioxide. It is used to evaluate releasing different greenhouse gases on a common basis. GWP is a factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given GHG relative to one unit of CO₂.*
- *The current list is the one in the IPCC's 6th Assessment Report ([chapter 7.SM.1.3](#)). As per ESRS E1 paragraph AR39, when reporting emissions, the undertaking shall 'use the most recent Global Warming Potential (GWP) values published by the IPCC based on a 100-year time horizon to calculate CO₂e emissions of non-CO₂ gases'.*
- *In the suggested amendment, ISSB is allowing reporting undertakings to use alternative counting methodologies if such one as required by a local jurisdiction or an exchange.*

EFRAG's response

EFRAG welcomes this amendment as it is consistent with EFRAG previous position expressed in ESRS Q&A Explanations, allowing the reporting undertakings to apply different calculation methods (other than the one recommended by EFRAG, if it is required to do so by a local jurisdiction or an exchange). EFRAG refer in the ESRS to the current globally accepted method which is the use of the IPCC latest scientific guidance for using the GWP for a time scale of 100 years (see answer to ID 208).

It should be noted, that if an undertaking does, at the end, decide on using another calculation method with a different timescale and thus different GWP factors, it should consider disclosing it in a proper way, in order to avoid lack of comparability of the carbon footprint between the different years as well as with other reporting undertakings.