

ISSB consultation on IFRS S2 amendments

EFRAG Final Comment Letter



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ISSB consultation on IFRS S2

- On 28 April, ISSB launched the consultation on the Exposure Draft proposing amendments to IFRS S2. The text was amended as following:

to permit entities to exclude the following Scope 3 Category 15 [investments] GHG emissions from the emissions required to be disclosed in accordance with IFRS S2 paragraph 29(a)(i)(3):

- 1. derivatives;**
- 2. investment banking activities in the investment banking industry (referred to in this paper as **facilitated emissions**); and**
- 3. underwriting activities in **the insurance and reinsurance industry** (referred to in this paper as insurance-associated emissions).**

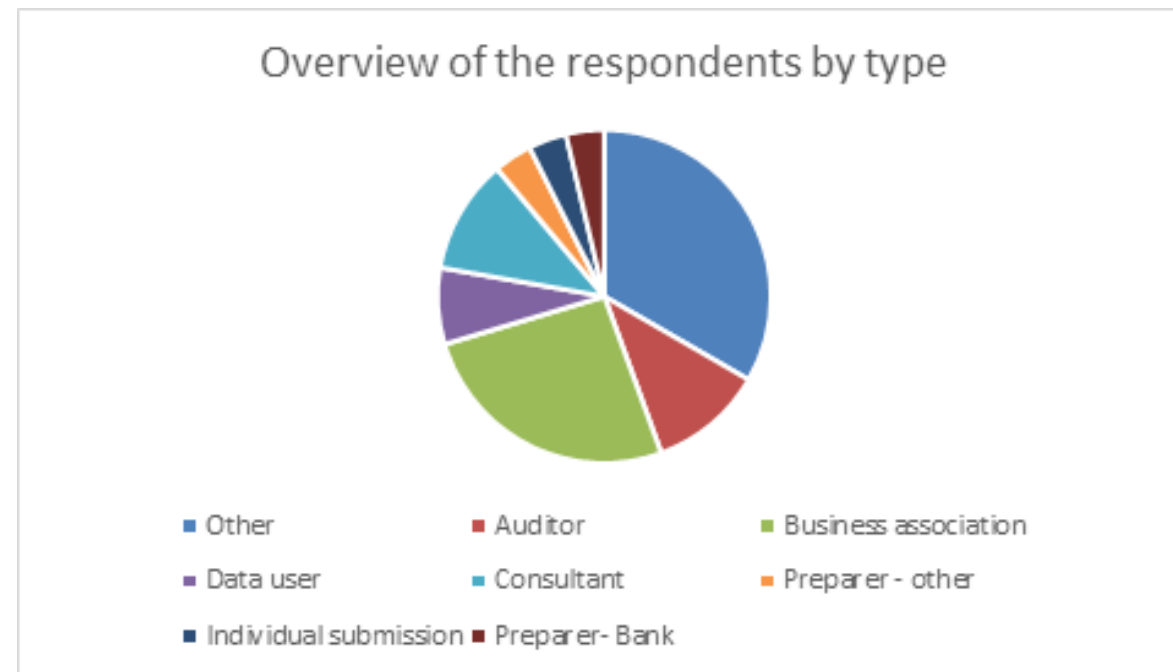
- Besides the proposed amendments to scope 3 GHG emissions disclosure for certain financial activities or asset classes, the ISSB approved the following amendments to IFRS S2:
 1. To permit an entity to use **GWP values** that are required by a jurisdictional authority or exchange on which the entity is listed, instead of using the GWP values from the latest IPCC assessment; and
 2. Clarify that the jurisdictional relief is applicable if a jurisdictional authority or an exchange on which it is listed, requests **to use another method other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (GHG Protocol Corporate Standard)** to measure GHG emissions, in whole or in part.



Overview of the EFRAG consultation on its DCL

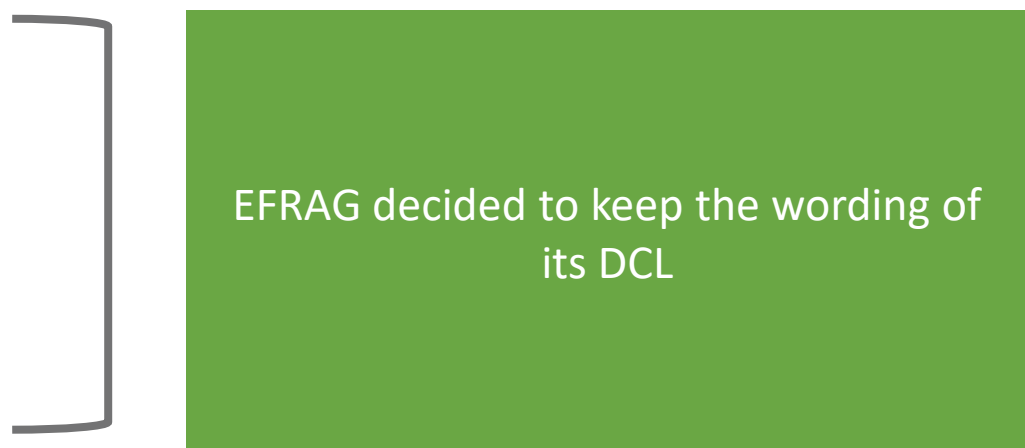
Overview of the feedback

- EFRAG launched its 3-week public consultation on its DCL on 28 May
- EFRAG received comments on its online survey from **24 stakeholders** who fully completed the questionnaire
- In addition, EFRAG Secretariat received two letters



Overview of the feedback: Derivatives

- Regarding the emissions associated with derivatives,
 - **18 stakeholders** agreed with EFRAG position,
 - 3 stakeholders disagreed with EFRAG position, and
 - 3 stakeholders abstained.

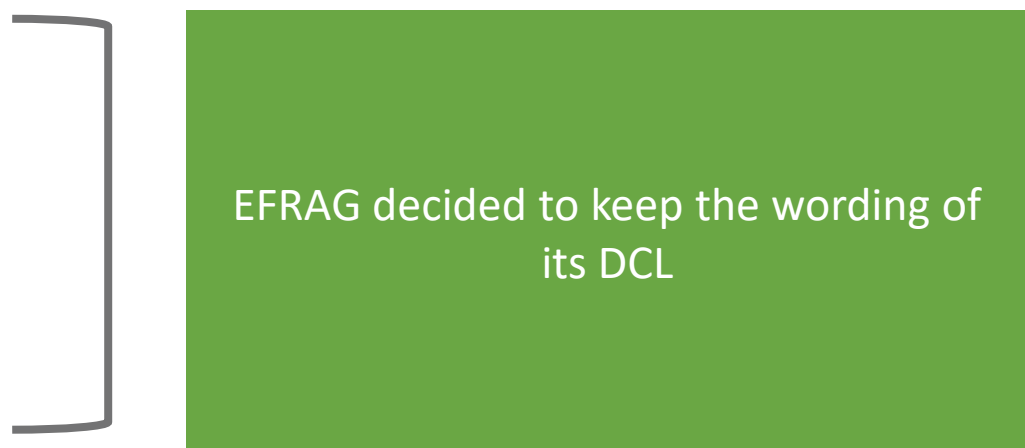


EFRAG decided to keep the wording of its DCL

Please note that the detailed feedback can be found on SF

Overview of the feedback: Facilitated

- Regarding the facilitated emissions,
 - **13 stakeholders** agreed with EFRAG position,
 - 3 stakeholders disagreed with EFRAG position, and
 - 3 stakeholders abstained.

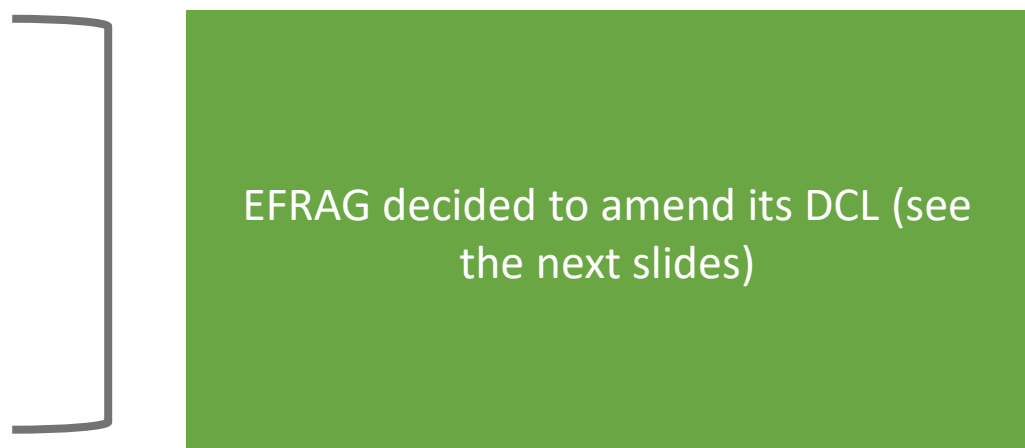


EFRAG decided to keep the wording of its DCL

Please note that the detailed feedback can be found on SF

Overview of the feedback: Insurance-associated emissions

- Regarding the emissions associated with insurance-associated emissions,
 - **12 stakeholders** agreed with EFRAG position,
 - 7 stakeholders disagreed with EFRAG position, and
 - 0 stakeholder abstained.



EFRAG decided to amend its DCL (see the next slides)

Please note that the detailed feedback can be found on SF

For insured emissions, EFRAG supports ~~acknowledges~~ the proposed relief. EFRAG also notes that ~~, which should not be permanent, reflecting the outcome of the~~ there is an ongoing debate ~~that is currently taking place 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 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.

Question 1 a)

Insurance associated emissions

- ~~EFRAG agrees with the proposed questions granting a permanent~~ 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. rather than a transitional relief, as previously analysed by the ISSB Staff ⁴, at this stage of the reporting developments.~~

~~EFRAG 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.~~

~~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. Particularly, d~~ 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.

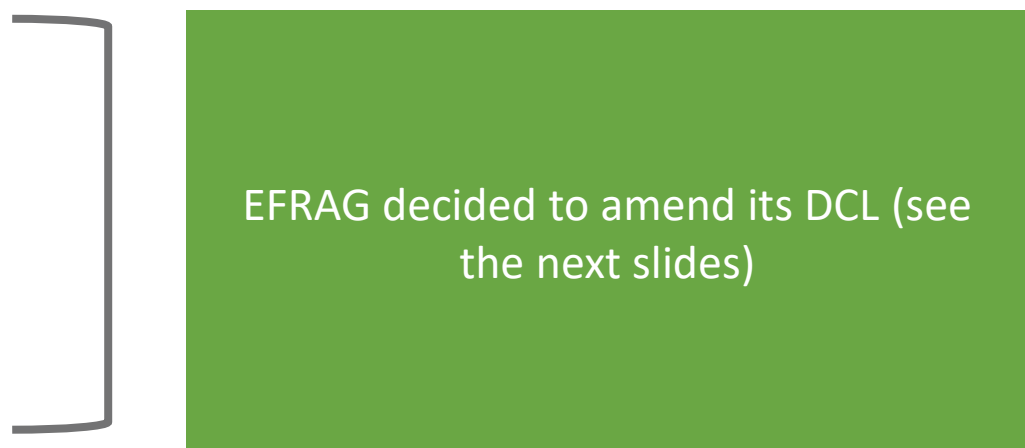
~~EFRAG also notes that the ED can be understood as an amendment that remedies the apparent contradiction between the IFRS S2 June 2023 Basis for conclusions (BC 127-129) and the IFRS S2 standard, as the technical analysis of such amendment for insured emissions is not described in the Basis for conclusions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

Overview of the feedback: Amount of derivatives or other financial activities excluded

- Regarding the disclosure of the amount of derivatives or other financial activities excluded,
 - **10 stakeholders** agreed with EFRAG position,
 - 5 stakeholders disagreed with EFRAG position, and
 - 4 stakeholders abstained.



EFRAG decided to amend its DCL (see the next slides)

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Question 1 b)

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

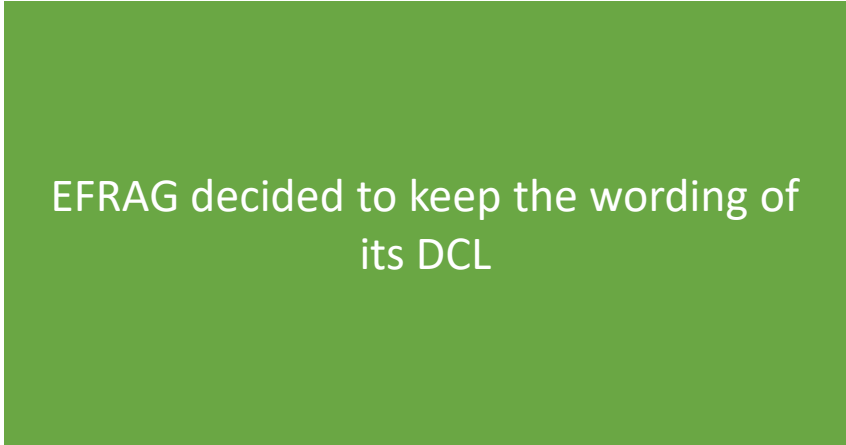
~~The point described above also applies to the activities of~~ insurance associated emissions should
~~, which may or may not~~ include claims related emissions

~~, and the facilitated emissions for investment banking.~~ 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.

Please note that the detailed feedback can be found on SF

Overview of the feedback: use of the Global Industry Classification Standard

- Regarding the use of the Global Industry Classification Standard in applying specific requirements related to financed emissions,
- **10 stakeholders** agreed with EFRAG position,
- 1 stakeholder disagreed with EFRAG position, and
- 5 stakeholders abstained.



EFRAG decided to keep the wording of its DCL

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Overview of the feedback: Applicability of Jurisdictional relief from using the GHG Protocol Corporate Standard

- Regarding the applicability of Jurisdictional relief from using the GHG Protocol Corporate Standard,
 - **12 stakeholders** agreed with EFRAG position,
 - 1 stakeholder disagreed with EFRAG position, and
 - 1 stakeholder abstained.



EFRAG decided to keep the wording of its DCL

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Overview of the feedback: Applicability of jurisdictional relief for global warming potential values

- Regarding the applicability of jurisdictional relief for global warming potential values,
 - **12 stakeholders** agreed with EFRAG position,
 - 2 stakeholders disagreed with EFRAG position, and
 - No stakeholder abstained.



EFRAG decided to keep the wording of its DCL

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Question to the TEG members

Does the SR TEG member agree with the Final Comment Letter?



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