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## ISSB Meeting

Date	<b>December 2022</b>
Project	<b>Climate-related Disclosures</b>
Topic	<b>Scope 3 greenhouse gas emissions</b>
Contacts	<b>Tory Yoshida</b> ( <a href="mailto:tory.yoshida@ifrs.org">tory.yoshida@ifrs.org</a> ) <b>Caroline Clark-Maxwell</b> ( <a href="mailto:cclark-maxwell@ifrs.org">cclark-maxwell@ifrs.org</a> )

This paper has been prepared for discussion at a public meeting of the International Sustainability Standards Board (ISSB). This paper does not represent the views of the ISSB or any individual ISSB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

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## Objective

1. In October 2022, the ISSB began its redeliberations on the proposed requirements set out in paragraph 21(a) of [draft] IFRS S2 *Climate-related Disclosures* ([draft] S2) relating to Scope 3 greenhouse gas (GHG) emissions. The matter was discussed at the time in Agenda Paper 4B [Climate-related Disclosures—Scope 3 greenhouse gas emissions](#) (October 2022). At that meeting, the ISSB tentatively decided:
  - (a) to proceed with its proposal to require an entity to disclose its Scope 3 GHG emissions (when material), **subject to relief** that would address the data availability and data quality challenges raised by respondents in the consultation; and
  - (b) to confirm that such a disclosure would include information about which of the 15 Scope 3 GHG emissions categories described in the Greenhouse Gas Protocol *Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (GHG Protocol *Value Chain Standard*) are included within the entity's measure of Scope 3 GHG emissions.
2. Furthermore, in October 2022, the ISSB asked the staff to provide an analysis on whether an entity should be exempt from the disclosure described in paragraph 1(b) if the entity is not using the Greenhouse Gas Protocol: *A Corporate Accounting and Reporting Standard* (the GHG Protocol *Corporate Standard*).
3. This paper continues the redeliberations described in paragraph 1, by asking the ISSB whether it agrees to introduce reliefs to address the data availability and data quality challenges raised by respondents in the consultation. Furthermore, in this paper, the staff also brings back a recommendation to the ISSB with regards to the question summarised in paragraph 2. **This paper is therefore a decision-making paper.**
4. This paper complements Agenda Paper 4A: *Climate-related Disclosures—Greenhouse gas emissions*.

## Summary of staff recommendations

5. The staff recommends the ISSB:
  - (a) introduce reliefs for Scope 3 GHG emissions disclosures. Specifically:

- (i) a temporary exemption from the proposed requirement to disclose Scope 3 GHG emissions for a minimum of one year following the effective date of IFRS S2 (paragraphs 18–22).
  - (ii) relief so that an entity’s measurement of Scope 3 GHG emissions can include GHG emissions information that is not aligned with its reporting period when the GHG emission information is obtained from entities in its value chain with a reporting cycle that is not aligned to that of the preparer, subject to specific conditions (paragraphs 23–28).
- (b) introduce a framework for how an entity measures its Scope 3 GHG emissions, with accompanying requirements for an entity to disclose information that enables users of general purpose financial reporting to understand how the entity measured its Scope 3 GHG emissions (paragraphs 29–57).
- (c) introduce relief related to an entity’s value chain. Specifically:
- (i) implementation (‘non-mandatory’) guidance to support an entity in assessing which sustainability-related risks and opportunities in the value chain are relevant to users of general purpose financial reporting, using Scope 3 GHG emissions as an example (paragraphs 58–74).
  - (ii) require an entity to reassess the ‘scope’ of its sustainability-related risks and opportunities in its value chain only upon the occurrence of either a significant event or a significant change in circumstances (paragraphs 75–89).
6. Finally, the staff recommends that the ISSB confirm that no additional relief will be provided regarding the proposal that an entity is required to include information about which of the 15 Scope 3 GHG emissions categories described in the GHG Protocol *Value Chain Standard* are included within the entity’s measure of Scope 3 GHG emissions (paragraphs 90–94).
7. The staff notes that in discussions with jurisdictions adopting IFRS Sustainability Disclosure Standards, consideration can be given to whether providing safe harbour provisions would be necessary or helpful in a jurisdiction to facilitate disclosure of Scope 3 GHG emissions (paragraphs 95–98). Ultimately this is a decision for jurisdictions and securities regulators.

## Structure of the paper

8. This paper is structured as follows:
- (a) background (paragraphs 9–13)
  - (b) staff analysis and recommendations (paragraphs 14–98);
  - (c) questions for the ISSB (paragraph 99);
  - (d) appendices:
    - (i) Appendix A—extracts from the GHG Protocol *Value Chain Standard*;
    - (ii) Appendix B—comparison of the 15 categories in the GHG Protocol *Value Chain Standard* and the classification of indirect GHG emissions in ISO (the International Organization for Standardization) 14064-1:2018 *Greenhouse gases—Part 1*:

*Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals (ISO 14064-1:2018); and*

- (iii) Appendix C—overview of the terms ‘reasonable and supportable’ and ‘undue cost or effort’ in IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 17 *Insurance Contracts* (IFRS 17)

## Background

9. As noted in paragraph 1, the ISSB began its redeliberations on the proposed requirements set out in paragraph 21(a) of [draft] S2 relating to Scope 3 GHG emissions in October 2022. The ISSB considered feedback from respondents relating to those proposals.
10. At that meeting the ISSB decided:
  - (a) to proceed with its proposal to require an entity to disclose its Scope 3 GHG emissions (when material);
  - (b) to confirm that such a disclosure would include information about which of the 15 Scope 3 GHG emissions categories described in the *GHG Protocol Value Chain Standard* are included within the entity’s measure of Scope 3 emissions; and
  - (c) that relief would be provided with the publication of IFRS S2 to assist with data availability and data quality challenges associated with Scope 3 GHG emissions.
11. The ISSB discussed specific reliefs to address concerns raised by respondents about the data availability and data quality challenges associated with the disclosure of Scope 3 GHG emissions. In particular, the ISSB considered:
  - (a) introducing a later effective date for disclosures on Scope 3 GHG emissions—addressing transitional challenges associated with data availability;
  - (b) collaborating with security regulators to provide safe harbour provisions—addressing transitional data availability challenges and concerns about the quality of data;
  - (c) supporting preparers in the application of the proposed requirement by developing implementation guidance for disclosures about Scope 3 GHG emissions—addressing persistent data quality challenges;
  - (d) introducing data quality tiers—addressing data availability and data quality challenges to differentiate the quality of an entity’s underlying data used to estimate Scope 3 GHG emissions;
  - (e) assisting preparers in the application of the proposed requirement by specifying when the ‘scope’ of the Scope 3 GHG emissions disclosures must be reassessed; and
  - (f) assisting preparers in the application of the proposed requirement by specifying what a preparer can do when reporting cycles for entities in the value chain do not align with each other and/or with that of the preparer and thus the GHG emissions information for those entities does not align with the preparer’s reporting period.

12. This paper discusses these matters further, building on Agenda Paper 4B [Climate-related Disclosures—Scope 3 greenhouse gas emissions](#) (October 2022) and taking into account comments of ISSB members at the October 2022 meeting.
13. This paper should furthermore be viewed in the context of Agenda Paper 3B and 4C: *General Sustainability-related Disclosures and Climate-related Disclosures—Scalability [Proportionality]* (September 2022), which the staff is using to consider proportionality mechanisms across the disclosure requirements in [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1) and [draft] S2.

## Staff analysis and recommendations

14. As described in paragraph 1 of [draft] S2, its objective 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.
15. For completeness, the staff notes that all proposed disclosure requirements in [draft] S2 would be subject to materiality.
16. Within that context, an entity thus needs to capture the appropriate 'scope' of Scope 3 GHG emissions information to meet these objectives, to produce a measure of Scope 3 GHG emissions that is representationally faithful of the entity's value chain emissions and to measure its Scope 3 GHG emissions at every reporting date.
17. The staff has approached the recommendations in this paper with the aim of providing relief in such a way that an entity is still able to meet the objective of [draft] S2. For example, an entity is still required to measure its Scope 3 GHG emissions at every reporting date, but the staff has recommended relief that would require an entity to reassess the 'scope' of what is included in that measurement only upon the occurrence of either a significant event or a significant change in circumstances (paragraphs 75–89).

## Introduce relief for Scope 3 GHG emissions disclosures

### ***A temporary exemption from the proposed requirement to disclose Scope 3 GHG emissions (minimum one year)***

18. In October 2022, the staff suggested that the ISSB consider introducing a temporary exemption from the proposed requirement to disclose Scope 3 GHG emissions to address feedback from respondents. This recommendation would address the challenge that many entities may not be able to provide Scope 3 GHG emissions disclosures of sufficient quality to be decision-useful for users of general purpose financial reporting—or provide any disclosure at all on Scope 3 GHG emissions—at

the time that IFRS S2 is first applied and may need longer to prepare to provide this disclosure than other disclosures required by S2. The ISSB agreed that introducing this should be further considered.

19. The staff notes that, consistent with work by the International Accounting Standards Board (IASB), providing a temporary exemption may not reduce complexity for entities in all situations<sup>1</sup>. This is also consistent with what the staff has heard when talking directly to preparers as part of the consultation period and redeliberations. Typically, an entity that invests in appropriate infrastructure to collect, measure, estimate and disclose information wants to ensure that this infrastructure is fit for purpose for all the disclosures. Otherwise, there's a risk that the infrastructure doesn't (effectively) capture the information needed when the additional requirements are required later.
20. Therefore, the staff would only recommend providing a temporary exemption from the proposed Scope 3 GHG emissions requirement when there is a clear benefit in this timing relief. The staff believe that this is the case with Scope 3 GHG emissions because preparers would benefit from the requirement to disclose Scope 1 and Scope 2 GHG emissions first and from having additional time to prepare. By requiring disclosure of Scope 1 and Scope 2 GHG emissions earlier than Scope 3 GHG emissions, the temporary data availability challenge will be addressed to a significant degree; partly as listed entities in a preparer's supply chain will be subject to the proposed requirement to disclose their Scope 1 and Scope 2 GHG emissions; and partly because it will give a preparer more time to work with the entities in its value chain to collect and/or estimate its Scope 3 GHG emissions.
21. As noted in October 2022, providing a temporary exemption from the proposed Scope 3 GHG emission disclosures is consistent with the proposed rules on climate-related disclosures by the U.S. SEC, which proposes an additional year before the rule mandates reporting of Scope 3 GHG emissions, and the proposed Aotearoa New Zealand Climate Standards, which provides an exemption from Scope 3 GHG emissions disclosures in an entity's first reporting period (although disclosure in the interim is encouraged).
22. **Therefore, the staff recommends that the ISSB provide a temporary exemption from the proposed requirement to disclose Scope 3 GHG emissions for a minimum of one year following the effective date of IFRS S2.** The staff notes that no transitional disclosure would be required in place of the Scope 3 GHG emissions information in the transitional period between the effective date of IFRS S2 and the Scope 3 requirement, however an entity could choose to provide its Scope 3 GHG emissions disclosures earlier. To ensure that the length of the temporary exemption from the proposed disclosure is considered holistically as part of the discussion on the effective date for IFRS S2, the staff will bring the final recommendation on the length of the exemption as part of the recommendations on effective date.

### ***Relief for different reporting cycles***

23. In October 2022, the staff suggested that the ISSB consider specifying what preparers could do in the event that the preparer's reporting cycle is different than the reporting cycle of one or more entities in the value chain. Such a difference would mean that information about the GHG emissions of the entities in its value chain may not be readily available for the preparer's reporting cycle. At the time, the staff noted the requirements in IAS 28 *Investments in Associates and Joint Ventures* (IAS 28). IAS 28 requires that the difference in reporting periods between the reporting entity and its associates or

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<sup>1</sup> [Agenda Paper 21C: Analysis of operating expenses—disclosures in the notes](#) (paragraph 34): 'There are different ways in which cost relief could be provided. For example, the Board could provide a temporary exemption from the proposed requirement to disclose an analysis of total operating expenses by nature, to allow a longer-than-usual implementation period. A temporary exemption might provide some cost relief for entities that need to make significant changes to their accounting systems, as they could incorporate the disclosure requirement into the next major update of their accounting systems, which they might need to undertake for other reasons. However, if significant costs would be incurred to build the disclosure requirement into the new systems, a temporary exemption could simply defer those costs, not avoid them. Also, the Board would need to decide for how long the temporary exemption should be available'

joint ventures be no more than three months and that the length of the reporting periods and any difference between the ends of the reporting periods must be the same from period to period.

24. Users of general purpose financial reporting said that the main barriers to using Scope 3 GHG emissions to inform their assessments of a reporting entity are the lack of disclosure or the lack of transparency with regards to the assumptions underpinning the disclosure. There is little evidence to indicate that in today's environment, the value of the Scope 3 GHG emissions disclosure to users would be significantly reduced by having an entity use data from its value chain that is based on a different reporting cycle.
25. The difference in reporting cycle is less likely to present difficulties with activity data, which is oftentimes collected internally based on the preparer's reporting cycle. On the other hand, emission factors, and the Scope 1 and 2 GHG emissions the preparer needs from the entities in the value chain to calculate these emission factors, are more likely to present challenges when reporting cycles are not aligned. However, with emission factors, the alternative is industry-based emission factors that may be based on studies from prior years.
26. The staff thinks that the inclusion of an associate or joint venture in the recognition and measurement of amounts recognised in the investor's financial statements is different to the estimation of Scope 3 GHG emissions information. Scope 3 GHG emissions information is a disclosure and is likely to require significant estimation. As a result, the staff does not believe that the three months precedent is appropriate in this situation. That precedent is also unlikely to provide the necessary relief. Accordingly, the staff recommends that the ISSB require an entity to use the most recent data available without undue cost or effort to estimate and disclose its Scope 3 GHG emissions. However, the staff recommends that the ISSB requires that the length of the reporting periods is the same, consistent with IAS 28 (ie, annual Scope 3 GHG emissions would be measured using information from the value chain for an annual period even when the reporting periods of the preparer and the entities in the value chain are not aligned).
27. As discussed in the October 2022 meeting, the staff believes the ISSB should require entities to adjust for the effects of any **significant events or changes in circumstances** that occur between the end of the reporting period for the entity in the value chain and the end of the preparer's reporting period. If, for instance, the entity knows that an entity in its value chain has invested heavily in emission efficient technology that should be reflected in the preparer's emission factors for the preparer's reporting cycle, then the entity should make adjustments to this effect. The staff has a more complete discussion of the use of the term 'significant' and 'events and changes in circumstances' in paragraphs 75–89.
28. In summary, **the staff recommends that the ISSB provide relief so that an entity's measurement of Scope 3 GHG emissions can include GHG emissions information for a period that is not aligned with its reporting period when the GHG emission information is obtained from entities in its value chain with a reporting cycle that is not aligned to that of the preparer, subject to specific conditions.** Specifically, to require that:
- (a) an entity uses the most recent data available without undue cost or effort<sup>2</sup> to estimate and disclose its Scope 3 GHG emissions;

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<sup>2</sup> The staff discusses the term undue cost or effort in further detail in paragraph 50 in this paper



- (b) the length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period; and
- (c) an entity adjusts for the effects of significant events and changes in circumstances that occur between that date and the date of the entity's general purpose financial reporting.

## Introduce a framework for measuring Scope 3 GHG emissions, and accompanying requirements

29. In October 2022, the staff suggested that the ISSB consider introducing data quality tiers—in other words, that the preparer would differentiate between the levels of inputs present in its underlying data when measuring Scope 3 GHG emissions. Due to the data availability and data quality challenges raised by respondents, entities will often estimate their Scope 3 GHG emissions using a variety of inputs with different levels of measurement uncertainty, especially when an entity is in the beginning stages of measuring such emissions. However, users of general purpose financial reporting have expressed broad agreement with the need for disclosure on Scope 3 GHG emissions. Indeed they have said data that relies on estimates with considerable measurement uncertainty is preferable to no data at all. These users have articulated a need, however, for transparency around the methods that an entity uses to prepare its disclosure, and the measurement uncertainties associated with the disclosure. Users, and other respondents, have also asked the ISSB to design its requirements to be proportionate with the entity's ability to provide information about its Scope 3 GHG emissions. In other words, when entities are able to measure Scope 3 GHG emissions using estimates with higher measurement certainty, these entities should be required to do so.
30. Below, the staff sets out its analysis of how to best balance the information needs of users of general purpose financial reporting, and the capabilities and preparedness of preparers. This analysis builds on the comment letter feedback from the consultation and targeted outreach, and also draws on:
- (a) IFRS Accounting Standards developed by the IASB, such as the fair value hierarchy in IFRS 13 *Fair Value Measurement* (IFRS 13);
  - (b) the GHG Protocol *Corporate Standard* and the GHG Protocol *Value Chain Standard*; and
  - (c) other third-party standards and guidance, including *GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting Financial* (PCAF) and ISO 14064-1:2018.
31. In particular, the staff's recommendations are grounded in the work of the GHG Protocol *Corporate Standard* and the GHG Protocol *Value Chain Standard*. This is because the ISSB has confirmed that entities will be required to disclose their Scope 1, Scope 2 and Scope 3 GHG emissions in accordance with the GHG Protocol *Corporate Standard* (with exceptions in specific instances). The ISSB also confirmed that an entity will be required to consider the 15 categories of Scope 3 GHG emissions defined by the GHG Protocol *Value Chain Standard*<sup>3</sup>. As such, the staff thinks it would be more cost efficient for preparers if the 'data hierarchy'—or framework—builds on the work of the GHG Protocol. Furthermore, such an approach is consistent with the Project Approach as described in Agenda Paper 3B and 4B: [General Sustainability-related Disclosures and Climate-related Disclosures—Plan for redeliberation](#). In that paper, the staff identified key factors to consider as part

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<sup>3</sup> These requirements were confirmed at the ISSB Board meetings in October 2022.

of the ISSB's redeliberation, including leveraging existing sustainability-related frameworks and standards.

32. Below, the staff describes the elements that informed the recommendation to the ISSB, building on the GHG Protocol *Value Chain Standard* and targeted outreach with preparers. The specific recommendations are summarised at the end of the analysis, in paragraphs 46–51. The elements were:
- (a) direct measurement and estimation<sup>4</sup> (activity data and emission factors);
  - (b) data from specific activities within an entity's value chain ('primary data') and data that is not from specific activities within an entity's value chain ('secondary data'); and
  - (c) indicators to guide preparers in assessing the degree to which the data faithfully represent the entity's value chain activities and emissions.

#### ***Direct measurement and estimation***

33. In section 7.2 'Overview of quantification methods and data types', the GHG Protocol *Value Chain Standard* describes the two main methods of quantifying emissions: direct measurement and calculation ('estimation'). The GHG Protocol *Value Chain Standard* says that in practice, estimation will be used most often to measure Scope 3 GHG emissions, which requires the use of two types of data: activity data and emission factors. As described in Agenda Paper 4A: *Climate-related Disclosures—Greenhouse gas emissions* for this meeting, activity data are a quantitative measure of a level of activity that results in GHG emissions and are entity specific. Emission factors are conversion factors that enable entities to convert activity data into GHG emissions. Emission factors can be obtained through direct measurements (from activities in an entity's value chain as inputs to measure the entity's Scope 3 GHG emissions) or can be estimated based on published sources, including the International Energy Agency (IEA) or jurisdictions where GHG emissions disclosure is mandatory. Appendix A reproduces the examples of activity data and emission factors that are listed in Table 7.2 in the GHG Protocol *Value Chain Standard*.
34. In conclusion, direct measurement, if possible, is preferred to the use of estimates. However, in practice, estimation will most often be used by an entity to measure its Scope 3 GHG emissions. An entity may be able to obtain emission factors based on direct measurement for specific activities.

#### ***Data from specific activities within an entity's value chain, and data that is not from specific activities within an entity's value chain***

35. The GHG Protocol *Value Chain Standard* describes two categories of data<sup>5</sup> that can be used to estimate an entity's Scope 3 GHG emissions: data from specific activities within a company's value chain ('primary data') and data that is not from specific activities within a company's value chain ('secondary data').
36. 'Primary data' includes data provided by suppliers or other value chain partners related to specific activities in the reporting company's value chain. Primary data can be collected internally, for example through purchase the entity's own records, or externally from suppliers and other value chain partners, for example supplier-specific emission factors for purchased goods or services. Secondary

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<sup>4</sup> In the GHG Protocol *Value Chain Standard*, this is referred to as 'calculations'.

<sup>5</sup> As per paragraph 33, the staff uses the term 'data' to describe both emission factors and activity data.



data includes industry-average data (for example, from published databases, government statistics, literature studies and industry associations), data that is used to approximate the activity or emission factors, and other data.

37. Below is an extract from Table 7.4 in the GHG Protocol *Value Chain Standard* which provides examples of primary data and secondary data for waste generated in operations (Category 5). The complete table is reproduced in Appendix A.

**Extract from the GHG Protocol *Value Chain Standard*, table 7.4 (page 72)**

Category	Examples of primary data <i>[Data from specific activities within an entity's value chain]</i>	Examples of secondary data <i>[Data that is not from specific activities within an entity's value chain]</i>
5. Waste generated in operations	<ul style="list-style-type: none"> <li>• <b>Site-specific</b> emissions data from waste management companies</li> <li>• <b>Company-specific</b> metric tons of waste generated</li> <li>• <b>Company-specific</b> emission factors</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated metric tons of waste generated based on <b>industry-average data</b></li> <li>• <b>Industry average</b> emission factors</li> </ul>

38. Consistent with the GHG Protocol *Value Chain Standard*, the staff agrees that data from specific activities within an entity's value chain provides a better representation of the entity's specific value chain activities and thus will provide a better basis for measuring of the entity's Scope 3 GHG emissions. However, the staff notes that data that is not from specific activities within an entity's value chain (such as industry data) enables entities to estimate emissions when 'primary data' is unavailable or is of insufficient quality. Furthermore, the staff notes that industry data can be useful for estimating emissions from minor activities because it can be more cost-effective and easier to collect.
39. When the staff conducted research with preparers, many explained that in the first instance they use industry data to understand the magnitude of various Scope 3 GHG emissions-related activities, which enables them to identify and prioritise their efforts in collecting primary data (as well as their GHG reduction efforts).

***Indicators that guide preparers in assessing the degree to which the data faithfully represent the entity's value chain activities and emissions***

40. The GHG Protocol *Value Chain Standard* describes five data quality indicators for entities to use as a guide to obtain the highest quality Scope 3 GHG emissions information available. These five data quality indicators (reproduced in Appendix A) are:
- (a) technological representativeness;
  - (b) temporal representativeness;
  - (c) geographical representativeness;
  - (d) completeness; and
  - (e) reliability.

41. The GHG Protocol *Value Chain Standard* divides these five data quality indicators into two areas: representativeness of data (in terms of technology, time, and geography) and the quality of data measurements (completeness and ‘reliability’ of data).
42. The staff notes that ‘representativeness of data’ and the ‘quality of data measurements’ as those characteristics are used in the GHG Protocol *Value Chain Standard* are not dissimilar in concept to the proposed requirements in [draft] S1 on fair presentation and sources of estimation and outcome uncertainty. Paragraph 47 (a) of [draft] S1 states that (bold added for emphasis): ‘a fair representation also requires an entity to disclose information that is **relevant, representationally faithful, comparable, verifiable, timely** and understandable’. Paragraph 79 of [draft] S1 says:
- When metrics cannot be measured directly and can only be estimated, measurement uncertainty arises. The use of reasonable estimates is an essential part of preparing sustainability-related metrics and does not undermine the usefulness of the information if the estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an estimate from providing useful information. An entity shall identify metrics it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties.
43. The staff thinks the indicators described in the GHG Protocol *Value Chain Standard* are useful as guidance on how an entity can assess whether data is representationally faithful (in terms of technology, time and geography). With regards to ‘time’ specifically, the staff notes that activity data should be based on the reporting cycle (subject to the relief recommended in paragraphs 23–28), but acknowledges that emission factors oftentimes are based on studies and research conducted in the past.
44. The GHG Protocol *Value Chain Standard* says that the most ‘representative’ ‘primary data’ (data from specific activities in the value chain) is likely to be product-level data, followed by activity-, process- or production line-level data, facility-level data, business unit-level data and corporate level data (these ‘data levels’ are reproduced in Appendix A). When using secondary databases, the GHG Protocol *Value Chain Standard* states that entities should prioritise databases and publications that are internationally recognised, provided by national governments or peer-reviewed.
45. With regards to the indicators described in the GHG Protocol *Value Chain Standard* on how an entity can assess the ‘quality of data measurement’ (ie completeness and ‘reliability’), the staff notes that an entity would be required, as part of [draft] S1, to disclose information that is complete and verifiable. Users of general purpose financial reporting have signalled that information about whether the data is verified is particularly useful in assessing the data quality (verification may take place in several ways, by on-site checking, reviewing calculations, cross-checks with other sources).

#### **Staff recommendations—measurement framework**

46. The staff thinks—based on the research described above—that it’s possible to describe what information used in the measurement of Scope 3 GHG emissions has less measurement uncertainty (and thus is most likely to provide a faithful representation of an entity’s Scope 3 GHG emissions). For example, data from specific activities within an entity’s value chain would have less measurement uncertainty compared to data that is not from specific activities within an entity’s value chain. Similarly, data that is more granular, such as product-level data, would have less measurement uncertainty than less granular data, such as corporate level data.
47. However, we think that determining whether an entity obtains the data that most faithfully represent its value chain activity and emissions by prioritising one element over another is a matter of management

judgement. For example, should management prioritise obtaining more recent emission factors that are less granular, or emission factors that are older but more granular? Determining which of the two emission factors provides the most representationally faithful estimate of Scope 3 GHG emissions is likely to be determined by a combination of facts and circumstances such as how old the emission factors are, the difference between the values of the emission factors (has estimations, or the technologies, significantly improved over time), the difference in time between the two emission factors, and the difference in granularity between the two emission factors.

48. Therefore, the staff recommends that the ISSB provide, as part of the application guidance in IFRS S2, a framework for how an entity estimates its Scope 3 GHG emissions. Specifically, an entity would estimate its Scope 3 GHG emissions by prioritising the use of:
- (a) data based on direct measurement;
  - (b) data from specific activities within an entity's value chain ('primary data');
  - (c) timely data that faithfully represent the jurisdiction of, and the technology used for, the value chain activity and its emissions; and
  - (d) data that has been verified.
49. The staff note that IFRS 13 requires that an entity 'maximises the use of relevant observable inputs'. The staff recommends that the ISSB require an entity to 'prioritise' particular information rather than 'maximise' particular information because we think this will enable an entity to get the best balance of these elements to faithfully represent its Scope 3 GHG emissions. The staff furthermore observes that the Scope 3 GHG emissions disclosures are subject to materiality. An entity may measure its Scope 3 GHG emissions in a way that is not 'maximising' the elements above, but still provides a reasonable estimate of Scope 3 GHG emissions for users of general purpose financial reporting.
50. In addition, the staff recommends that the ISSB require an entity to prioritise the elements listed in paragraph 48 using **reasonable and supportable information** that is available to an entity **without undue cost or effort**. The staff notes that the IASB has used the notion of 'reasonable and supportable' information that is available 'without undue cost or effort' in some IFRS Accounting Standards—most notably IFRS 9 and IFRS 17. Extracts of those Accounting Standards are reproduced in Appendix C. The staff plans to bring to a future meeting a more detailed analysis of how this notion may be used more broadly in IFRS S1 and IFRS S2. Specifically in the context of measuring Scope 3 GHG emissions, we think that terminology is helpful in this recommendation. Said plainly, requiring an entity to use reasonable and supportable information that is available without undue cost or effort would mean that the entity is required to consider information that is reasonably available, including that which it already has (ie it cannot simply decide to ignore or disregard known information) and is prohibited from 'making-up' information (ie there must be a sound basis for information that it uses). Furthermore, this notion would provide comfort to entities that the ISSB is not asking them to undertake exhaustive searches for information (ie the ISSB is not asking for the impossible).
51. Finally, the staff recommends that this framework is part of the application guidance in IFRS S2 (ie that it would be required) to improve the consistency (over time) and comparability (across entities) of an entity's Scope 3 GHG emissions disclosures. This would also reduce measurement uncertainty in estimates of Scope 3 GHG emissions while acknowledging that a range of different inputs is required. This can also help users of general purpose financial reporting to understand the sources of estimation uncertainty, and help an entity assess when it is able (and unable) to provide specific Scope 3 GHG emissions disclosures. For the avoidance of doubt, the staff thinks the framework—while grounded in the GHG Protocol *Value Chain Standard*—to be helpful even when an entity is exempt from using the GHG Protocol *Corporate Standard* as a measurement method. Therefore, the

staff is not intending that an entity exempt from using the GHG Protocol *Corporate Standard* to be exempt from this framework.

### ***Disclosures to accompany the framework***

52. The staff recommends that this Scope 3 GHG emissions framework is accompanied with disclosure requirements that will enable users of general purpose financial reporting to understand the quality of the data that an entity used for its Scope 3 GHG emissions disclosures and the basis for the entity's estimation. Furthermore, the disclosure requirements would help communicate to users how the entity is able (and not able) to use different sources of data to estimate its Scope 3 GHG emissions. As such, the staff think these disclosures will serve the dual purpose of enhancing the disclosures for users of the information and providing a level of comfort to entities preparing the information that the measurement of Scope 3 GHG emissions will require the use of estimation and that a variety of data sources are expected to be used.
53. **Specifically, the staff recommends that the ISSB introduce requirements that an entity disclose:**
- (a) to what extent (for example, as a percentage of total Scope 3 GHG emissions) the Scope 3 GHG emissions disclosure is estimated using inputs from specific activities within the entity's value chain ('primary data');
  - (b) to what extent (for example, as a percentage of total Scope 3 GHG emissions) the Scope 3 GHG emissions disclosure is estimated using inputs that are verified; and
  - (c) if the entity determines it is impracticable to estimate its Scope 3 GHG emissions, how the entity is managing (how it is 'thinking about') its Scope 3 GHG emissions.
54. These recommendations complement the staff recommendation in Agenda Paper 4A: *Climate-related Disclosures—Greenhouse gas emissions* for this meeting that an entity be required to disclose information that enables users of general purpose financial reporting to understand what inputs, assumptions and estimation techniques the entity has used to estimate its Scope 3 GHG emissions and why these inputs, assumptions and estimation techniques are relevant to its GHG emissions.
55. The staff notes that the recommended disclosures in paragraph 53 are intended to improve the transparency of how entities measure and monitor their Scope 3 GHG emissions. As such, the disclosure requirements that the staff is recommending to accompany the framework should not be a significant added burden for preparers.
56. The recommended disclosure requirement in paragraph 53 (a) is similar to a requirement in [draft] European Sustainability Reporting Standards E1 Climate change ([draft] ESRS E1), published in November 2022, that an entity is required to 'disclose the percentage of emissions calculated using primary data obtained from suppliers or other value chain partners'<sup>6</sup>.
57. The recommended disclosure requirement in paragraph 53(c) responds to requests from users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant climate-related risks and opportunities related to Scope 3 GHG emissions, if the entity is unable to estimate its Scope 3 GHG emissions. If an entity determines it is impracticable to estimate its Scope 3 GHG emissions, the entity would be required to disclose how it is managing (or not managing) the risks or opportunities associated with its Scope 3 GHG emissions (in the absence of measuring its Scope 3 GHG emissions). The staff proposed 'impracticable' as a threshold instead of

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<sup>6</sup> [Draft European Sustainability Reporting Standards—ESRS E1 Climate change](#), paragraph AR44 (g)

‘without undue cost or effort’ because we think there should be a higher threshold for not disclosing any material Scope 3 GHG emissions information, given the recommended relief in this paper to enable entities to disclose Scope 3 GHG emissions information with considerable estimation uncertainty.

## Introduce relief for disclosures related to an entity’s value chain

### *Implementation guidance to support preparers*

58. In October 2022, the staff suggested that the ISSB consider supporting preparers in the implementation and application of the requirement that an entity disclose its Scope 3 GHG emissions by developing implementation (‘non-mandatory’) guidance. Such guidance could address the persistent challenges respondents raised regarding data quality.
59. During its meeting, the ISSB discussed data quality challenges preparers may face when measuring their Scope 3 GHG emissions. However, while the ISSB agreed with the staff suggestion to further consider implementation guidance, it also noted that the staff should review this in the context of existing third-party guidance that is available to support preparers. For example, when meeting the requirement in paragraph 21(a)(i)(3) and 21(a)(vi) of [draft] S2, an entity can refer to the GHG Protocol’s *Technical Guidance for Calculating Scope 3 Emissions*, which is a supplement to the GHG Protocol *Value Chain Standard*.
60. As part of the October 2022 paper, the staff had identified two areas where implementation guidance could be used to address the feedback from the respondents to the consultation. Specifically:
- (a) how preparers determine the ‘scope’ of their Scope 3 GHG emissions disclosures, including how preparers determine which entities in the value chain, and which of the 15 categories, are relevant to enable users’ assessment of enterprise value; and
  - (b) additional sector-specific guidance on which Scope 3 GHG emissions categories are likely to be most relevant by sector or industry.
61. Below, the staff analyses these two areas in further detail.

### *Determine the ‘scope’ of their Scope 3 GHG emissions disclosures*

62. The staff will first summarise aspects of the existing guidance, before discussing the implications for the ISSB.
63. The GHG Protocol *Value Chain Standard* Chapter 6: Setting the Scope 3 Boundary helps entities determine which Scope 3 GHG emissions to include in the disclosure (its GHG emissions ‘inventory’). Table 6.1 on page 61 of the GHG Protocol *Value Chain Standard* (reproduced in Appendix A) lays out a set of criteria for assessing the relevance of Scope 3 GHG emissions, which includes:
- (a) Size: whether the GHG emissions contribute significantly to the entity’s total anticipated Scope 3 GHG emissions;
  - (b) Influence: whether the entity has potential influence of the GHG emissions;
  - (c) Risks: whether the GHG emissions contribute to the entity’s risk exposure;
  - (d) Stakeholders: whether the emissions are deemed critical by key stakeholders;



- (e) Outsourcing: whether these emissions are outsourced activities previously performed in-house or activities outsourced by the entity that are typically performed in-house by other entities in the reporting entity's sector;
  - (f) Sector guidance: whether these emissions have been identified as significant by sector-specific guidance; and
  - (g) Other: whether the emissions meet any additional criteria for determining relevance developed by the entity or sector.
64. The GHG Protocol *Value Chain Standard* notes that an entity should 'not exclude any activity that would compromise the relevance of the reported inventory (...). Companies should ensure that the Scope 3 inventory appropriately reflects the GHG emissions of the company, and serves the decision-making needs of users, both internal and external to the company.'
65. In addition to the guidance provided by the GHG Protocol *Value Chain Standard*, there is sector-based guidance (discussed below in paragraphs 70–73) provided by CDP and Science Based Target initiative (SBTi). Finally, the [Scope 3 Evaluator](#) can provide a quick estimate of an entity's Scope 3 GHG emissions by category to help entities prioritise their Scope 3 GHG emissions.
66. While the staff considers the available guidance sufficient (both in terms of coverage, and through speaking to preparers through targeted outreach) for entities to determine the 'scope' for their internal Scope 3 GHG emissions 'inventory', third-party guidance has been written with a variety of stakeholders in mind, and not exclusively for reporting to investors and other participants in the world's capital markets. For example, as described in October 2022 in Agenda Paper 3B *Climate-related Disclosures—Scope 3 GHG emissions*: 'Users [of general purpose financial reporting] argued that an entity is exposed to transition risks associated with its GHG emissions—and that this is not limited to the GHG emissions within the entity's control. For example, an entity could be exposed to the risk of higher costs, decreased availability of supplies or lower demand, due to the risk of increased carbon prices, the introduction of more stringent regulation on GHG emissions and changing customer preferences'. 'Influence' is therefore not a criterion for relevance in the confirmed requirements in paragraph 21(a) of [draft] S2. Whether the Scope 3 GHG emissions are based on 'activities outsourced by the entity that are typically performed in-house by other entities in the reporting entity's sector [or industry]' is not in itself a reason why an entity's Scope 3 GHG emissions are relevant to a user. (However, it may be that users perceive these GHG emissions as particularly relevant in terms of presenting risks or opportunities for the entity.)
67. The staff notes that an entity using the GHG Protocol *Value Chain Standard* as guidance on measuring its Scope 3 GHG emissions must still disclose this information in accordance with [draft] S1 and [draft] S2. The Scope 3 GHG emissions information is thus subject to the requirements on fair presentation and materiality, for example, the entity cannot exclude GHG emissions information just because it is unable to influence its GHG emissions.
68. The above analysis has led staff to conclude that the existing third-party guidance may be inadequate in helping entities prepare disclosures which allow users of general purpose financial reporting to understand how an entity measures, monitors and manages its climate-related risks and opportunities and to provide a fair presentation of its Scope 3 GHG emissions.
69. This is furthermore linked to a broader concern raised by preparers in the consultation with regards to identifying relevant sustainability-related risks and opportunities in an entity's value chain as part of general purpose financial reporting. As such, the staff considers it likely that preparers may benefit from additional guidance focused on identifying relevant disclosures for users based on the sustainability-related risks and opportunities in the entity's value chain.



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***Additional sector-based (or industry-based) guidance on which Scope 3 GHG emissions categories are likely to be most relevant by sector (or guidance)***

70. CDP provides additional guidance on which Scope 3 GHG emissions categories are most likely relevant by sector in its Technical Note: *Relevance of Scope 3 Categories by Sector*. This could support entities in 16 high-impact sectors (as defined by CDP) in identifying which Scope 3 GHG emissions categories could be relevant to consider. CDP based its guidance on an assessment of relevance and significance (by size); and the steps are described on page 6 in CDP's Technical Note:

As a first step, the relevant categories for each sector were determined using a literature review of frameworks and resources relevant to that sector. As a second step, an analysis of 2021 CDP responses to question C6.5, and C-FS14.1a for the Financial Services sector was conducted to identify a) the proportion of responders in a sector selecting a Scope 3 category as "Relevant, calculated", and b) the magnitude of each Scope 3 category relative to both total Scope 3 emissions and total Scope 1+2+3 emissions (as reported in C6.1, C6.3, C6.5, and C-FS14.1a for the Financial Services sector). Based on the data analysis results, other relevant categories were included if they comprised a large proportion of Scope 3 emissions reported by the sector.

71. Furthermore, SBTi has illustrated the average breakdown of Scope 3 emissions in each of the GHG Protocol Scope 3 categories for the highest emitting sectors in its *Value Change in the Value Chain: Best Practices in Scope 3 Greenhouse Gas Management Guidance*.
72. When speaking to preparers, they were typically familiar with what categories other competitors in their industry were disclosing. As such, the staff would not prioritise sector- or industry-based guidance at this stage.
73. The staff notes that the Sustainability Accounting Standards Board (SASB) published guidance in 2020 on GHG emissions, including industry-based levers and drivers of Scope 3 GHG emissions. In the future, it could therefore be helpful to provide additional industry-based Scope 3 GHG emissions educational material which links the relevant Scope 3 disclosures based on the requirements in [draft] S2 paragraph 21 to the additional requirements in [draft] S2 Appendix B.

***Staff recommendations—implementation guidance***

74. Based on the above analysis, **the staff recommends that the ISSB provide implementation guidance that helps entities identifying relevant sustainability-related risks and opportunities in the value chain, using Scope 3 GHG emissions as an example.**

***Require reassessment only upon the occurrence of either a significant event or a significant change in circumstances***

75. In October 2022, the staff suggested that the ISSB consider the timing of the reassessment of the 'scope'<sup>7</sup> of an entity's Scope 3 GHG emissions. The staff noted that [draft] S1 and [draft] S2 require reporting as at each reporting date. As a result, strictly speaking, the proposed requirement in [draft] S2 would require an entity to reassess, at every reporting date, the 'scope' of its Scope 3 GHG emissions. The staff identified this as a disclosure requirement where the costs may be disproportionate to the benefit to users of general purpose financial reporting, who typically would benefit from a reassessment only when something significant changes (a 'trigger') not least given the focus in [draft] S1 and [draft] S2 on the disclosure of material information. For example, assuming the

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<sup>7</sup> That is, reassessing which categories and which entities in the value chain are relevant to include in an entity's Scope 3 GHG emissions disclosure

information is material, a user would expect an entity's Scope 3 GHG emissions to reflect the acquisition of another entity or regulatory changes that change the risk profile and thus the relevance of particular GHG emissions in the value chain.

76. The staff observes that the relief discussed above is not unique to Scope 3 GHG emissions. In fact, this relief is relevant to an entity that is required to reassess the 'scope' of its sustainability-related risks and opportunities in its value chain—Scope 3 GHG emissions is just one example of this. Therefore, the staff has expanded the analysis on whether to provide relief for reassessment to encompass the reassessment of an entity's sustainability-related risks and opportunities in its value chain.
77. In October, the staff identified three IFRS Accounting Standards that could be relevant to the ISSB's consideration of reassessment: IFRS 10 *Consolidated Financial Statements* (IFRS 10), IFRS 16 *Leases* (IFRS 16) and IAS 34 *Interim Financial Reporting* (IAS 34). The staff analysis since October has focused on IFRS 10 and IFRS 16 as the most applicable for reassessment.<sup>8</sup>
78. The staff thinks there are two alternatives for the ISSB to consider with regards to the reassessment of the 'scope' of sustainability-related risks and opportunities in the value chain:
- (a) Approach 1: Requiring reassessment only upon the occurrence of a 'significant event' or a 'significant change in circumstances'
  - (b) Approach 2: Requiring reassessment only if 'facts and circumstances' indicate that there are changes to one or more pre-defined elements
79. The staff describe both approaches below, but the staff recommends Approach 1. Two approaches that were not considered further following the discussion in October 2022 are to provide no relief for reassessment, or to never require reassessment. The staff believes that the ISSB should not consider not providing relief, due to the reasons described in paragraph 75. Nor does the staff believe the ISSB should consider not requiring reassessment, as the 'scope' of the sustainability-related risks and opportunities in an entity's value chain is likely to change over time (in a way that matters to investors), as the entity's business model and operations evolve, and the external environment changes.

### Approach 1

80. Under Approach 1, an entity would be required to reassess the 'scope' of its sustainability-related risks and opportunities in its value chain only upon the occurrence of either a significant event or a significant change in circumstances. That is, applying Approach 1, an entity would not be required to reassess the 'scope' at every reporting date. Instead, the entity's ongoing efforts would consist of monitoring for significant events or changes in circumstances, and only upon such an event or change in circumstances would it reassess the 'scope' of its sustainability-related risks and opportunities.
81. Approach 1 would be similar to the approach taken in IFRS 16 for reassessing a lease term. IFRS 16 specifies how a preparer recognises, measures, presents and discloses leases. An important aspect of measurement in IFRS 16 is the lease term. Paragraph 20 of IFRS 16 requires the entity to reassess the lease term 'upon the occurrence of either **a significant event or a significant change in circumstances** that: (a) is within the control of the lessee; and (b) affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term'.

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<sup>8</sup> IAS 34 provides relief by permitting less information to be reported in an interim financial report compared to annual financial statements (on the basis of providing an update to those annual financial statements), which is different than reassessment

82. IFRS 16 does not describe or define how big an event or change in circumstances needs to be for it to be considered 'significant'. However, paragraph B41 of the Basis of Conclusions on IFRS 16 provides examples of significant events and significant changes in circumstances. Specifically:
- (a) significant leasehold improvements not anticipated at the commencement date that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;
  - (b) a significant modification to, or customisation of, the underlying asset that was not anticipated at the commencement date;
  - (c) the inception of a sublease of the underlying asset for a period beyond the end of the previously determined lease term; and
  - (d) a business decision of the lessee that is directly relevant to exercising, or not exercising, an option (for example, a decision to extend the lease of a complementary asset, to dispose of an alternative asset or to dispose of a business unit within which the right-of-use asset is employed).
83. The staff will consider developing examples to describe the meaning of a 'significant event' and a 'significant change in circumstance' in order to help preparers understand and apply the requirement. Tentatively, the staff has drafted the following examples:
- (a) a significant change in the entity's value chain, for example, a supplier in the entity's value chain makes a change that significantly alters the supplier's GHG emissions;
  - (b) a significant change in the entity's business model, business activities or corporate structure, for example because of a merger or acquisition; and
  - (c) a significant change in investors' perception of risks and opportunities, for example, due to a change in regulation that the entity had not anticipated when it assessed the 'scope' of the sustainability-related risks and opportunities in its value chain.
84. An advantage of Approach 1 is that it provides relief for preparers by limiting the circumstances in which reassessment would be required as compared to the proposal in [draft] S2. The staff think that the types of triggering events included above in our recommendation would be of such a significant nature that it would be apparent when they occur. Moreover, the processes necessary to capture significant events or significant changes in circumstances would be less sophisticated than those that would be necessary to monitor for any changes in relevant factors (as would be required if the ISSB provided no relief) or changes in 'facts and circumstances' as described in Approach 2.

### **Approach 2**

85. Under Approach 2, an entity would be required to reassess the 'scope' of its sustainability-related risks and opportunities if facts and circumstances indicate that there are changes to one or more pre-defined elements. Similar to Approach 1, Approach 2 would not require an entity to reassess the 'scope' at every reporting date. Instead, the entity's ongoing efforts would consist of monitoring for facts and circumstances that indicate that there are changes to one or more pre-defined elements, and only then reassess the 'scope' of its sustainability-related risks and opportunities.
86. Approach 2 would be similar to the approach taken in IFRS 10, which outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities they control. Paragraph 7 of IFRS 10 describes if an investor controls an investee, ie when it has all of the following elements of control—power over the investee; exposure, or rights, to variable

returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of its returns. Paragraph B80 requires that ‘an investor shall reassess whether it controls an investee if **facts and circumstances** indicate that there are **changes to one or more of the three elements of control** listed in paragraph 7’.

87. The staff believes that focusing on ‘changes to elements’ would be difficult to apply as a relief for the reassessment of the ‘scope’ of the sustainability-related risks and opportunities in the value chain. IFRS 10 provides **three elements** that determine the control over the investee. The triggers that determine whether a sustainability-related risk or opportunity in an entity’s value chain is relevant to users of general purpose financial reporting is likely to vary greatly. Consequently, the set of ‘elements’ likely would be so extensive that such relief would not actually reduce complexity for preparers.
88. Furthermore, the staff think that the lack of a ‘threshold’ (such as ‘significant’) applying this approach would be challenging. For example, a change in the supplier(s) could be identified as a trigger that would mean an entity would need to reassess the ‘scope’ of its sustainability-related risks and opportunities in the value chain. However, not every change in a supplier is likely substantial enough to warrant a reassessment of the entity’s ‘scope’.

#### **Staff recommendations—reassessment relief**

89. Based on the above analysis, **the staff recommends that the ISSB require an entity to reassess the ‘scope’ of its sustainability-related risks and opportunities in its value chain only upon the occurrence of either a significant event or a significant change in circumstances.** The staff notes that as the recommendation is intended as a relief to preparers. Therefore, it is optional, and the entity can choose instead to reassess more frequently; for example, each year.

### **Confirm no additional relief with regards to the consideration of the 15 categories in the GHG Protocol *Value Chain Standard***

90. In October 2022, the staff brought a recommendation to the ISSB to confirm that such a disclosure would include information about which of the 15 Scope 3 GHG emissions categories described in the GHG Protocol *Value Chain Standard* are relevant and therefore included within the entity’s measure of Scope 3 GHG emissions. Furthermore, the staff brought a recommendation to the ISSB to amend the proposed requirement for an entity to disclose its GHG emissions in accordance with the GHG Protocol *Corporate Standard* to provide the following relief:
- (a) when an entity has been using a GHG emissions measurement method that is different from the GHG Protocol Standards, the entity may continue to use its existing measurement method for a defined period following the effective date of the requirement prior to applying the GHG Protocol Standards; and
  - (b) when an entity is required by jurisdictional authorities or the exchange on which it is listed to use a GHG emissions measurement method that is different from the GHG Protocol Standards, the entity may continue to use that measurement method, so long as it is required, to avoid duplicative reporting.
91. The ISSB asked the staff to provide an analysis and recommendation on whether an entity should be exempt from disclosing which of the 15 Scope 3 GHG emissions categories described in the GHG Protocol *Value Chain Standard* are included within the measure of its Scope 3 GHG emissions when it is subject to the relief described in paragraph 90.

92. The staff notes that one of the key drivers behind the tentative decision made by the ISSB to confirm that an entity is required to disclose its GHG emissions in accordance with the GHG Protocol *Corporate Standard* was because it provided a common basis for measurement. This improves comparability across entities by narrowing the range of possible measurement approaches, which was emphasised as important across the respondents to the consultation, in particular users of general purpose financial reporting.
93. The staff has compared the 15 categories in the GHG Protocol *Value Chain Standard* with the ISO 14064-1:2018 (Appendix B). The staff found that these are largely consistent, suggesting that entities that disclose their Scope 3 ('indirect') GHG emissions in accordance with ISO would not find it challenging to disclose which of the 15 categories (from the GHG Protocol *Value Chain Standard*) are included as part of their disclosure.
94. Therefore, **the staff recommends that the ISSB confirm that no additional relief will be provided regarding the proposal that an entity is required to include information about which of the 15 Scope 3 GHG emissions categories described in the GHG Protocol *Value Chain Standard* are included within the entity's measure of Scope 3 GHG emissions.** In other words, even in instances when entities are exempt from disclosing their GHG emissions in accordance with the GHG Protocol *Corporate Standard*, an entity is required to disclose which of the 15 Scope 3 GHG emissions categories described in the GHG Protocol *Value Chain Standard* are included within the entity's measure of Scope 3 GHG emissions.

## Collaborate with securities regulators to provide safe harbour

95. In October 2022, the staff suggested that the ISSB consider how it can work with regulators in facilitating safe harbour provisions. A safe harbour can be a provision in law or regulation that affords entities protection from liability or penalty from capital market participants (in other words, private third-party individuals) and reduces liability if specific conditions are met. A safe harbour does not prevent a regulator from taking action, if warranted.
96. As described in October 2022, a safe harbour provision should be considered if the ISSB believes that some protection from litigation risks would facilitate disclosures by entities, for a limited period, to resolve some of the data availability challenges. The ISSB agreed with the staff that whilst it is not within the ISSB's mandate to provide safe harbours, these provisions, when introduced by security regulators, could increase disclosure from the preparers for Scope 3 GHG emissions.
97. Respondents to the consultation asked the ISSB to encourage jurisdictions to provide safe harbours. Furthermore, conversations with preparers as part of the consultation period and in redeliberation, suggest that some protection from litigation could, in specific jurisdictions, resolve some of the data availability challenges. **Therefore, the staff notes that the ISSB, as part of its adoption work, could work with securities regulators, and as part of that can help security regulators consider whether providing safe harbour provisions could facilitate additional disclosures of Scope 3 GHG emissions.**
98. In October 2022, the staff also suggested the ISSB consider adding language in the IFRS S2 Basis for Conclusions that the risk of litigation may discourage the provision of Scope 3 GHG emissions disclosures by entities and to note that the provision of safe harbour protection could assist in facilitating the disclosure of Scope 3 GHG emissions. Because this considered as a drafting point, the staff has not brought a recommendation to the ISSB on this point as part of this paper and will instead consider this during drafting.



## Questions for the ISSB

99. The staff present the following questions for the ISSB.

### Questions for the ISSB

1. Does the ISSB have any questions on the matters raised in this paper?
2. Does the ISSB agree with the staff recommendations to introduce relief for Scope 3 GHG emissions? Specifically:
  - (a) a temporary exemption from the proposed requirement to disclose Scope 3 GHG emissions for a minimum of one year following the effective date of IFRS S2; and
  - (b) relief so that an entity's measurement of Scope 3 GHG emissions can include GHG emissions information for a period that is not aligned with its reporting period when the GHG emission information is obtained from entities in its value chain with a reporting cycle that is not aligned to that of the preparer, subject to specific conditions? Specifically, to require that:
    - (i) an entity uses the most recent data available without undue cost or effort to estimate and disclose its Scope 3 GHG emissions;
    - (ii) the length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period; and
    - (iii) an entity adjusts for the effects of significant events and changes in circumstances that occur between that date and the date of the entity's general purpose financial reporting.
3. Does the ISSB agree with the staff recommendations to introduce a framework for how an entity measures its Scope 3 GHG emissions, and to introduce accompanying requirements to this framework? Specifically to require that an entity disclose:
  - (a) to what extent (for example, as a percentage of total Scope 3 GHG emissions) the Scope 3 GHG emissions disclosure is estimated using inputs from specific activities within the entity's value chain ('primary data');
  - (b) to what extent (for example, as a percentage of total Scope 3 GHG emissions) the Scope 3 GHG emissions disclosure is estimated using inputs that are verified; and
  - (c) if the entity determines it is impracticable to estimate its Scope 3 GHG emissions, how the entity is managing (how it is 'thinking about') its Scope 3 GHG emissions.
4. Does the ISSB agree with the staff recommendations to introduce relief for an entity's value chain? Specifically:
  - (a) provide implementation guidance to support an entity in assessing which sustainability-related risks and opportunities in the value chain are relevant to



- users of general purpose financial reporting, using Scope 3 GHG emissions as an example?
- (b) require an entity to reassess the ‘scope’ of its sustainability-related risks and opportunities in its value chain only upon the occurrence of either a significant event or a significant change in circumstances.
5. Does the ISSB agree with the staff recommendations to confirm that there is no additional relief with regards to the proposal that an entity is required to include information about which of the 15 Scope 3 GHG emissions categories described in the GHG Protocol *Value Chain Standard* are included within the entity’s measure of Scope 3 GHG emissions.

**Appendix A—extracts from the GHG Protocol *Value Chain Standard***

A1. Examples of activity data and emission factors (Table 7.2 from the GHG Protocol *Corporate Value Chain*)

Examples of activity data	Examples of emission factors
<ul style="list-style-type: none"> <li>• Liters of fuel consumed</li> <li>• Kilowatt-hours of electricity consumed</li> <li>• Kilograms of material consumed</li> <li>• Kilometers of distance travelled</li> <li>• Hours of time operated</li> <li>• Square meters of area occupied</li> <li>• Kilograms of waste generated</li> <li>• Kilograms of product sold</li> <li>• Quantity of money spent</li> </ul>	<ul style="list-style-type: none"> <li>• kg CO2 emitted per liter of fuel consumed</li> <li>• kg CO2 emitted per kWh of electricity consumed</li> <li>• kg PFC emitted per kg of material consumed</li> <li>• t CO2 emitted per kilometer traveled</li> <li>• kg SF6 emitted per hour of time operated</li> <li>• g N2 O emitted per square meter of area</li> <li>• g CH4 emitted per kg of waste generated</li> <li>• kg HFC emitted per kg of product sold</li> <li>• kg CO2 emitted per unit of currency spent</li> </ul>

A2. Examples of ‘primary data’ and ‘secondary data’ by Scope 3 category (Table 7.4 from the GHG Protocol *Corporate Value Chain*)

Category	Examples of primary data	Examples of secondary data
<i>Upstream scope 3 emissions</i>		
<b>1. Purchased goods and services</b>	<ul style="list-style-type: none"> <li>• Product-level cradle-to-gate GHG data from suppliers calculated using site-specific data</li> <li>• Site-specific energy use or emissions data from suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• Industry average emission factors per material consumed from life cycle inventory databases</li> </ul>
<b>2. Capital goods</b>	<ul style="list-style-type: none"> <li>• Product-level cradle-to-gate GHG data from suppliers calculated using site-specific data</li> <li>• Site-specific energy use or emissions data from capital goods suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• Industry average emission factors per material consumed from life cycle inventory databases</li> </ul>
<b>3. Fuel- and energy-related activities (not included in scope 1 or scope 2)</b>	<ul style="list-style-type: none"> <li>• Company-specific data on upstream emissions (e.g. extraction of fuels)</li> <li>• Grid-specific T&amp;D loss rate</li> <li>• Company-specific power purchase data and generator-specific emission rate for purchased power</li> </ul>	<ul style="list-style-type: none"> <li>• National average data on upstream emissions (e.g. from life cycle inventory database)</li> <li>• National average T&amp;D loss rate</li> <li>• National average power purchase data</li> </ul>
<b>4. Upstream transportation and distribution</b>	<ul style="list-style-type: none"> <li>• Activity-specific energy use or emissions data from third-party transportation and distribution suppliers</li> <li>• Actual distance travelled</li> <li>• Carrier-specific emission factors</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated distance travelled by mode based on industry-average data</li> </ul>

<b>5. Waste generated in operations</b>	<ul style="list-style-type: none"> <li>• Site-specific emissions data from waste management companies</li> <li>• Company-specific metric tons of waste generated</li> <li>• Company-specific emission factors</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated metric tons of waste generated based on industry-average data</li> <li>• Industry average emission factors</li> </ul>
<b>6. Business travel</b>	<ul style="list-style-type: none"> <li>• Activity-specific data from transportation suppliers (e.g., airlines)</li> <li>• Carrier-specific emission factors</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated distance travelled based on industry-average data</li> </ul>
<b>7. Employee commuting</b>	<ul style="list-style-type: none"> <li>• Specific distance travelled and mode of transport collected from employees</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated distance travelled based on industry-average data</li> </ul>
<b>8. Upstream leased assets</b>	<ul style="list-style-type: none"> <li>• Site-specific energy use data collected by utility bills or meters</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated emissions based on industry-average data (e.g. energy use per floor space by building type)</li> </ul>
<i>Downstream scope 3 emissions</i>		
<b>9. Transportation and distribution of sold products</b>	<ul style="list-style-type: none"> <li>• Activity-specific energy use or emissions data from third-party transportation and distribution partners</li> <li>• Activity-specific distance travelled</li> <li>• Company-specific emission factors (e.g., per metric ton-km)</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated distance travelled based on industry-average data</li> <li>• National average emission factors</li> </ul>
<b>10. Processing of sold products</b>	<ul style="list-style-type: none"> <li>• Site-specific energy use or emissions from downstream value chain partners</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated energy use based on industry-average data</li> </ul>
<b>11. Use of sold products</b>	<ul style="list-style-type: none"> <li>• Specific data collected from consumers</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated energy used based on national average statistics on product use</li> </ul>
<b>12. End-of-life treatment of sold products</b>	<ul style="list-style-type: none"> <li>• Specific data collected from consumers on disposal rates</li> <li>• Specific data collected from waste management providers on emissions rates or energy use</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated disposal rates based on national average statistics</li> <li>• Estimated emissions or energy use based on national average statistics</li> </ul>
<b>13. Downstream leased assets</b>	<ul style="list-style-type: none"> <li>• Site-specific energy use data collected by utility bills or meters</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated emissions based on industry-average data (e.g., energy use per floor space by building type)</li> </ul>
<b>14. Franchises</b>	<ul style="list-style-type: none"> <li>• Site-specific energy use data collected by utility bills or meters</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated emissions based on industry-average data (e.g., energy use per floor space by building type)</li> </ul>
<b>15. Investments</b>	<ul style="list-style-type: none"> <li>• Site-specific energy use or emissions data</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated emissions based on industry-average data</li> </ul>

A3. Data quality indicators (Table 7.6 from the GHG Protocol *Corporate Value Chain*)

Criteria	Descriptions
<b>Technological representativeness</b>	The degree to which the data set reflects the actual technology(ies) used
<b>Temporal representativeness</b>	The degree to which the data set reflects the actual time (e.g., year) or age of the activity
<b>Geographical representativeness</b>	The degree to which the data set reflects the actual geographic location of the activity (e.g., country or site)
<b>Completeness</b>	The degree to which the data is statistically representative of the relevant activity. Completeness includes the percentage of locations for which data is available and used out of the total number that relate to a specific activity. Completeness also addresses seasonal and other normal fluctuations in data.
<b>Reliability</b>	The degree to which the sources, data collection methods and verification procedures <sup>2</sup> used to obtain the data are dependable.

A4. Levels of data – ranked in order of specificity (Table 7.7 from the GHG Protocol *Corporate Value Chain*)

Criteria	Descriptions
<b>Product-level data</b>	Cradle-to-gate GHG emissions for the product of interest
<b>Activity-, process- or production line-level data</b>	GHG emissions and/or activity data for the activities, processes, or production lines that produce the product of interest
<b>Facility-level data</b>	GHG emissions and/or activity data for the facilities or operations that produce the product of interest
<b>Business unit-level data</b>	GHG emissions and/or activity data for the business units that produce the product of interest
<b>Corporate-level data</b>	GHG emissions and/or activity data for the entire corporation

A5. Criteria for identifying relevant scope 3 activities (Table 6.1 from the GHG Protocol *Corporate Value Chain*)

Criteria	Descriptions
<b>Size</b>	They contribute significantly to the company’s total anticipated scope 3 emissions
<b>Influence</b>	There are potential emissions reductions that could be undertaken or influenced by the company
<b>Risk</b>	They contribute to the company’s risk exposure (e.g., climate change related risks such as financial, regulatory, supply chain, product and customer, litigation, and reputational risks)
<b>Stakeholders</b>	They are deemed critical by key stakeholders (e.g., customers, suppliers, investors, or civil society)
<b>Outsourcing</b>	They are outsourced activities previously performed in-house or activities outsourced by the reporting company that are typically performed in-house by other companies in the reporting company’s sector
<b>Sector guidance</b>	They have been identified as significant by sector-specific guidance
<b>Other</b>	They meet any additional criteria for determining relevance developed by the company or industry sector

## Appendix B—comparison of the 15 categories in the GHG Protocol Value Chain Standard and the classification of indirect GHG emissions in ISO 14064-1:2018

B1. Below, the staff has included a preliminary mapping of the 15 categories in the GHG Protocol Value Chain Standard to the classification of indirect GHG emissions in ISO 14064-1:2018. This mapping has not been reviewed by either the GHG Protocol or ISO and the staff shares this document to supplement the board discussion only.

GHG Protocol Scope 3 Categories	ISO Emissions Categories	ISO Indirect Emissions Sub-Categories
<b>1:</b> purchased goods and services	<b>4:</b> Indirect GHG emissions from products used by an organization	Indirect GHG emissions from purchased goods and Indirect GHG emissions from the use of services
<b>2:</b> capital goods  <i>Quantification differences: For purposes of accounting for scope 3 emissions companies should not depreciate, discount, or amortize the emissions from the production of capital goods over time.</i>		Indirect GHG emissions from capital goods  <i>Quantification differences: Emissions within this subcategory could include either the total of emissions associated with the production of the capital good or an amortized part of the total (based on accounting or life-time duration).</i>
<b>3:</b> fuel- and energy-related activities		Indirect GHG emissions from purchased goods
<b>4:</b> upstream transportation and distribution	<b>3:</b> Indirect GHG emissions from transportation	Indirect GHG emissions from upstream transport and distribution for goods
<b>5:</b> waste generated in operations	<b>4:</b> Indirect GHG emissions from services used by organization	Indirect GHG emissions from the disposal of solid and liquid wastes
<b>6:</b> business travel	<b>3:</b> Indirect GHG emissions from transportation	Indirect GHG emissions from business travel
<b>7:</b> employee commuting		Indirect GHG emissions from employee commuting
<b>8:</b> upstream leased assets  <i>Two main types of leasing: finance lease and operating lease</i>	<b>4:</b> Indirect GHG emissions from products used by an organization	Indirect GHG emissions from the use of assets  <i>Three main types of leasing: finance leasing, operating leasing and contract hire</i>
<b>9:</b> downstream transportation and distribution	<b>3:</b> Indirect GHG emissions from transportation	Indirect GHG emissions from downstream transport and distribution for goods
<b>10:</b> <u>processing</u> of sold products	<b>5:</b> Indirect GHG emissions associated with the use of products from the organization	Indirect GHG emissions or removals from the <u>use stage of the product</u>
<b>11:</b> use of sold products  Direct / indirect use of phased GHG emissions: minimum direct use phase GHG emissions associated with the product/service shall be included, indirect use phase GHG emissions may be included if it's significant		Emissions or removals from the use stage of the product include the total expected lifetime emissions from all relevant products sold.  Direct / indirect use of phased GHG emissions: both direct and indirect use phase GHG emissions shall be included.
<b>12:</b> end-of-life treatment of sold products		Indirect GHG emissions from end-of-life stage of the product

<p><b>13: downstream leased assets</b></p>		<p>Indirect GHG emissions from downstream leased assets</p>
<p><b>14: franchises</b></p> <p>Emissions from the operation of franchises not included in scope 1 or scope 2. Applicable to franchisors. Franchisors should account for emissions that occur from the operation of franchises (i.e., the scope 1 and 2 emissions of franchisees) in this category.</p>	<p><b>1: Direct GHG emissions and removals</b> <b>2: Indirect GHG emissions from imported energy</b></p> <p>Requires franchises to be addressed within the operational boundaries of the reporting entity and to be accounted under category 1 and 2.</p>	
<p><b>15: investments</b></p> <p><i>Targeting primarily private financial institutions but also relevant to public financial institutions. Include: equity investments, debt investments, project finance, and managed investments and client services</i></p>	<p><b>5: Indirect GHG emissions associated with the use of products from the organization</b></p>	<p>Indirect GHG emissions from investment</p> <p><i>GHG emissions from investments are mainly targeting private or public financial institutions. GHG emissions could result from four types of operations: equity debt, investment debt, project finance and others</i></p>
<p>N/A</p>	<p><b>3: Indirect GHG emissions from transportation</b></p>	<p>Emissions from client and visitor transport</p> <p>Including emissions associated with the travel of clients and visitors to the reporting company's facility</p>
<p>'Other'</p> <p>In certain cases, assets controlled by the reporting company that are excluded from its organizational boundary may not be captured by the list of scope 3 categories. In such a case, emissions from these assets should be reported separately as an 'other' scope 3 activity</p>	<p><b>6: Indirect GHG emissions from other sources</b></p>	<p>Indirect GHG emissions from other sources</p> <p>The purpose of this category is to capture any organization specific emission (or removal) that cannot be reported in any other category. In consequence, it is the organization's responsibility to define the content of this particular category.</p>



## Appendix C—overview of the use of the terms ‘reasonable and supportable’ and ‘undue cost or effort’ in IFRS 9 and IFRS 17

C1. Examples of the use of the terms ‘reasonable and supportable’ and ‘undue cost or effort’ from IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 17 *Insurance Contracts* (IFRS 17).

IFRS Standard	Example from the Standard	Notable notes from Basis for Conclusions
IFRS 9	<p>... To make that assessment, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and <u>consider reasonable and supportable information, that is available without undue cost or effort</u>, that is indicative of significant increases in credit risk since initial recognition.</p>	<p>The majority of respondents to the 2013 Impairment Exposure Draft supported the proposed transition requirements. <u>Respondents noted that these proposals achieve a balance between the cost to implement the proposals and presenting relevant information.</u> However, respondents asked the IASB to consider practical ways in which to assess whether, at the date of initial application, there have been significant increases in credit risk since initial recognition...</p>
	<p>If <u>reasonable and supportable forward-looking information is available without undue cost or effort</u>, an entity cannot rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. However, when information that is more forward looking than past due status (either on an individual or a collective basis) is <u>available without undue cost or effort</u>, an entity may use past due information to determine whether there have been significant increases in credit risk since initial recognition</p>	<p><u>The IASB considered that the intention was not to penalise entities that could not obtain information about the initial credit risk without undue cost or effort.</u> It also noted that an entity need not have specific information about the initial credit risk of a financial instrument and clarified this in IFRS 9. ...</p> <p>... To further reduce the operational burden on such entities, IFRS 9 <u>allows entities to use past due information to determine whether credit risk has increased significantly if information (either on an individual or a portfolio level) that is more forward-looking is not available without undue cost or effort,</u> instead of requiring the implementation of more sophisticated credit risk management systems.</p>
	<p>... Typically, credit risk increases significantly before a financial instrument becomes past due or other lagging borrower-specific factors (for example, a modification or restructuring) are observed. Consequently when <u>reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort</u>, it must be used to assess changes in credit risk.</p> <p>In some circumstances an entity does not have <u>reasonable and supportable information that is available without undue cost or effort</u> to measure lifetime expected credit losses on an individual instrument basis. In that case, lifetime expected credit losses shall be recognised on a collective basis that considers comprehensive credit risk information.</p>	<p>... <u>The timeliness of capturing significant increases in credit risk primarily depends on whether the entity has reasonable and supportable information that is available without undue cost or effort</u> to identify significant increases in credit risk in a timely manner before financial assets become past due. However, when credit risk management systems are heavily dependent on past due information, there may be a delay between identifying significant increases in credit risk and when the increase in credit risk has actually occurred.</p>

	<p>(Appendix B) An entity is <u>not required to undertake an exhaustive search for information</u> when determining, at the date of transition, whether there have been significant increases in credit risk since initial recognition.</p>	
IFRS 17	<p>... Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall:</p> <p>(a) incorporate, in an unbiased way, all <u>reasonable and supportable information available without undue cost or effort</u> about the amount, timing and uncertainty of those future cash flows ....</p> <p>The objective of estimating future cash flows is to determine the expected value, or probability-weighted mean, of the full range of possible outcomes, considering all <u>reasonable and supportable information available at the reporting date without undue cost or effort</u>. Reasonable and supportable information available at the reporting date without undue cost or effort includes information about past events and current conditions, and forecasts of future conditions (see paragraph B41). <u>Information available from an entity's own information systems is considered to be available without undue cost or effort</u>.</p> <p>When considering the full range of possible outcomes, the objective is to incorporate all reasonable and supportable <u>information available without undue cost or effort</u> in an unbiased way, rather than to identify every possible scenario. In practice, developing explicit scenarios is unnecessary if the resulting estimate is consistent with the measurement objective of <u>considering all reasonable and supportable information available without undue cost or effort</u> when determining the mean. For example, if an entity estimates that the probability distribution of outcomes is broadly consistent with a probability distribution that can be described completely with a small number of parameters, it will be sufficient to estimate the smaller number of parameters.</p>	<p>Because insurance contracts transfer risk, the cash flows generated by insurance contracts are uncertain. Some argue that the measurement of insurance contracts should use a single estimate of the cash flows, for example, the most likely outcome or an outcome that is likely to prove 'sufficient' at an implicit or explicit level of confidence. However, <u>the Board decided that a measure of insurance contracts is most useful if it captures information about the full range of possible outcomes and their probabilities</u>.</p> <p>....</p> <p><u>Consistent with the approach taken in IFRS 9, the Board decided to specify that an entity should use reasonable and supportable information available without undue cost or effort in determining an expected present value.</u></p> <p>Because insurance contracts transfer risk, the cash flows generated by insurance contracts are uncertain. Some argue that the measurement of insurance contracts should use a single estimate of the cash flows, for example, the most likely outcome or an outcome that is likely to prove 'sufficient' at an implicit or explicit level of confidence. <u>However, the Board decided that a measure of insurance contracts is most useful if it captures information about the full range of possible outcomes and their probabilities</u>.</p> <p>...</p> <p><u>Consistent with the approach taken in IFRS 9, the Board decided to specify that an entity should use reasonable and supportable information available without undue cost or effort in determining an expected present value.</u></p>