
ISSB Meeting

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Project	Climate-related Disclosures
Topic	Climate-related targets—Latest international agreement on climate change
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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[®] Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

Objective

1. This paper continues the International Sustainability Standards Board's (ISSB's) redeliberations of the requirement proposed in paragraph 23 of the Exposure Draft IFRS S2 *Climate-related Disclosures* ([draft] S2) for entities to disclose information about their climate-related targets. It focuses specifically on the proposed requirement to disclose information about **how an entity's climate-related targets compare with those created in the latest international agreement on climate change**.
2. In October 2022, the ISSB began its redeliberation of the requirements in paragraph 23 of [draft] S2 and related matters and made several decisions relevant to climate-related targets, including a decision to confirm the requirements proposed for the disclosure of information about climate resilience in paragraph 15(b)(i)(4) of [draft] S2. One effect of that decision was to confirm the language used in [draft] S2 to refer to 'the latest international agreement on climate change', meaning that the current agreement—ie, the Paris Agreement—is not 'hard coded' into the requirements. This matter was addressed in Agenda Paper 3C & 4D: [Interoperability—key matters](#) (October 2022).
3. Subsequently in November 2022, the ISSB continued its redeliberations and decided to require an entity to disclose additional information about its climate-related targets, including which international agreement on climate change the entity is referencing when applying the requirements in paragraph 23 of [draft] S2. This matter was addressed in Agenda Paper 4A: [Strategy and decision-making and climate-related targets](#) (November 2022).
4. The objective of this paper is to:
 - (a) summarise stakeholder feedback received in comment letters and surveys on the relevant aspects of the ISSB's proposal in paragraph 23(e) of [draft] S2;
 - (b) provide the staff's analysis and recommendations, as summarised in paragraph 5 and described in further detail in paragraphs 11–15;
 - (c) ask the ISSB whether it agrees with the staff's recommendations.

Summary of staff recommendations

5. The staff recommends the ISSB amend the proposal in paragraph 23(e) of [draft] S2 so that an entity is required to disclose how the latest international agreement on climate change has informed any climate-related targets it has set. For the avoidance of doubt, this recommendation does not affect the other proposed requirement in paragraph 23(e) that an entity be required to disclose whether the climate-related target has been validated by a third party.

Structure of the paper

6. This paper is structured as follows:
 - (a) staff analysis and recommendations (paragraphs 7–21);
 - (b) questions for the ISSB (paragraphs 22); and
 - (c) Appendix A—overview of the proposals in [draft] S2.

Staff analysis and recommendations

7. Paragraph 23(e) of [draft] S2 proposes that, as part of its disclosure on any climate-related targets it has set, an entity shall disclose ‘how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party’. For the purposes of this paper, the staff will focus on the first part of that requirement (‘how the target compares with those created in the latest international agreement on climate change’) and any references to paragraph 23(e) will be to that aspect of the requirement, unless otherwise stated. Paragraph 23(e) and other related requirements proposed in [draft] S2 are summarised in Appendix A to this paper.
8. The staff has observed two common interpretations of the requirement proposed in [draft] S2 that an entity be required to disclose how the target compares with those created in the latest international agreement on climate change:
 - (a) firstly, that an entity would provide a binary, yes-or-no disclosure of whether its climate-related targets ‘compares’ with (ie, ‘are aligned with’) with the latest international agreement on climate change.
 - (b) secondly, that an entity would provide a qualitative or quantitative disclosure on the extent to which its climate-related target ‘compares’ with the latest international agreement on climate change. For example, an entity may have a target that is consistent with a 1.8°C temperature rise above pre-industrial levels, which it could compare quantitatively with the latest international agreement on climate change’s ambition to curbing global temperature rise to well below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C.
9. The staff notes that [draft] S2 used the word ‘compare’ partly to avoid binary disclosure of whether a target ‘aligns with’ or ‘is consistent with’ the latest international agreement on climate change. However, as suggested by the interpretation described in paragraph 8(a) there is still a possibility that an entity discloses a binary answer essentially on whether the target it has set is consistent with the latest international agreement on climate change. Furthermore, while the interpretation described in paragraph 8(b) is more closely aligned with the intention behind the proposed requirement, the ISSB noted in its November meeting that an alternative is to consider whether the proposal in paragraph 23(e) of [draft] S2 should be amended so that an entity be more explicitly required to disclose how the latest international agreement on climate change has informed the entity’s climate-related targets.
10. It is the staff’s view that there are two alternatives for the ISSB to consider with regard to the proposal in paragraph 23(e) of [draft] S2:
 - (a) Approach 1—amend the proposal in paragraph 23(e) to require an entity to disclose how the latest international agreement on climate change has informed any climate-related targets it has set; and
 - (b) Approach 2—confirm the requirement as proposed in paragraph 23(e) of [draft] S2, and provide additional guidance—for example, illustrative examples—of how an entity can disclose how its climate-related targets compare to the latest international agreement on climate change.

Approach 1—amend the proposal in paragraph 23(e) to require an entity to disclose how the latest international agreement on climate change has informed any climate-related targets it has set

11. Under Approach 1, an entity would be required to disclose information about how the latest international agreement on climate change has informed any climate-related targets it has set. For example, an entity may have set an emission reduction target to halve its Scope 1, Scope 2 and Scope 3 GHG emissions by a certain date because this is in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement. In this instance, the latest international agreement on climate change has informed the entity's climate-related target, for example in how the entity has determined the amount by which it aims to reduce its emissions, the GHG emissions scopes included in the emission reduction target and the timeframe over which the target applies.
12. The staff notes that, to be consistent with [draft] S2, an entity would be required to disclose how each of its climate-related targets—not just its emissions targets—has been informed by the latest international agreement on climate change (when this information is determined to be material). For example, an entity in agriculture may have specific climate-related targets (for example intermittent aeration) that are informed by its jurisdiction's Nationally Determined Contribution (NDC) measures for its agriculture sector.
13. The staff believes this approach would enable users of general purpose financial reporting to understand how an entity is thinking about its exposure to risks and opportunities associated with the latest international agreement on climate change and/or associated NDCs established by the jurisdictions in which it operates. Furthermore, an explanation of how the latest international agreement on climate change has informed the climate-related targets an entity has set should facilitate users understanding of whether the entity is acting in a manner consistent with the latest international agreement. This information would also enable users to assess how the entity is responding to these climate-related risks and opportunities in terms of the climate-related targets it sets. As such, this amendment would bring the requirement closer to the proposed objective in paragraph 1(c) of [draft] S2, that an entity be required disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting 'to evaluate the entity's ability to adapt its planning, business model and operations to significant climate-related risks and opportunities'—in this case, risks and opportunities associated with the latest global political and scientific consensus on limiting climate change.
14. Taking this approach, the staff believes that it would still be possible for a user of general purpose financial reporting to assess whether an entity's approach is consistent with the latest international agreement on climate change. For example, paragraph 23 of [draft] S2 also requires an entity to disclose additional information about its climate-related targets, including the scope¹, the objective, the period over which the target applies, the base period and any interim targets. As such, a user can compare an entity's climate-related targets to the latest international agreement on climate change or any NDC that the user considers relevant.
15. Therefore, the staff recommends the ISSB use Approach 1—in other words, amend the proposal in paragraph 23(e) to require an entity to disclose how the latest international agreement on climate change informs any climate-related targets it has set.

¹ The ISSB decided that the entity be required to disclose the scope of the entity's targets at its November 2022 meeting

Approach 2—confirm the requirement as proposed in paragraph 23(e) of [draft] S2, and provide additional guidance on how an entity can disclose how its climate-related targets compare to the latest international agreement on climate change

16. The staff also considered an alternative approach to confirm the existing proposal. The staff notes that given the different ways in which this proposed requirement has been interpreted, in this alternative approach, preparers would likely need additional guidance on how to disclose how their climate-related targets compare to the latest international agreement on climate change. By extension, such guidance may also benefit users of general purpose financial reporting, as it could improve the consistency of disclosures across preparers and improve the content of what is disclosed.
17. The staff's view is that the most practical format for providing such guidance would be through illustrative examples, which would have both pros and cons. On the one hand, such illustrative examples would help preparers understand the Standard by presenting possible approaches to meet the disclosure requirement that provide more details about what is meant by 'compares to'—for example in a jurisdictional or industry context. On the other hand, such examples may be difficult to develop in a way that is neither too general to add clarity nor too specific to be translated to other contexts or circumstances. Also, the staff notes that entities are not required to use illustrative examples when preparing their disclosures and thus there is no guarantee that such an approach would dispel the inconsistency of understanding described in paragraph 8.
18. For example, despite such guidance, in the absence of an explicit requirement to do otherwise, entities may continue to make binary, yes-or-no disclosures about whether their climate-related targets are aligned with the latest international agreement on climate change. Furthermore, such a comparison would give users of general purpose financial reporting less information about how an entity is thinking about its exposure to risks and opportunities associated with the latest international agreement on climate change and/or relevant NDCs established by the jurisdictions in which it operates, and how the entity is responding to those risks and opportunities.
19. For example, an entity in the Home Builders industry may decide to transition over a five-year period to 100% energy-efficient air conditioning systems using a natural refrigerant with low global warming potential in all its new home construction. Such a target may be influenced by a relevant jurisdictional NDC noting a commitment to promote a transition to energy-efficient air conditioning. For most users of general purpose financial reporting, it would likely be more valuable to understand how the entity has set targets that it believes will enable the entity to stay ahead of regulatory risks or to capture potential opportunities associated with jurisdictional support than for users to understand precisely how the target compares with the latest international agreement or any relevant commitments associated with the jurisdiction's NDC. It is the staff's view that Approach 1 is more likely to elicit this type of information.
20. Finally, the staff notes that Approach 2 would not meaningfully address a concern raised by the ISSB regarding the current latest international agreement on climate change—ie the Paris Agreement. Specifically, the ISSB questioned how an entity would compare its climate-related targets to an agreement that encompasses a range of ambition from curbing global temperature rise to well below 2°C above pre-industrial levels to pursuing efforts to limit warming to 1.5°C.
21. As such, the staff does not recommend this approach.

Questions for the ISSB

22. The staff presents the following questions for the ISSB.

Questions for the ISSB

1. Does the ISSB agree with the staff's recommendation to amend the proposal in paragraph 23(e) of [draft] S2 so that an entity is required to disclose how the latest international agreement on climate change has informed any climate-related targets it has set, noting that this does not affect the other proposed requirement in paragraph 23(e) that an entity be required to disclose whether the climate-related target has been validated by a third party?

Appendix A—Overview of the proposals in [draft] S2

- A1. Paragraph 23(e) of [draft] S2 proposes that, as part of its disclosure on climate-related targets, an entity shall disclose ‘how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party’. This paper focuses on the first part of this requirement (‘how the target compares with those created in the latest international agreement on climate change’).
- A2. The requirement set out in paragraph 23(e) of [draft] S2 is closely linked with the proposed requirements in paragraph 13(b) and paragraph 15(b)(i)(4) of [draft] S2. Specifically:
- (a) paragraph 13(b) of [draft] S2 proposes that an entity disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans. That includes information regarding any climate-related targets associated with those plans; and
 - (b) paragraph 15(b)(i)(4) of [draft] S2 proposes that an entity disclose whether it has used, among the scenarios it has selected as an input to its resilience assessment, a scenario aligned with the latest international agreement on climate change.
- A3. Appendix A—Defined Terms of [draft] S2 provides a definition of ‘latest international agreement on climate change’ as:
- an agreement by states, as members of the United Nations Framework Convention on Climate Change, to combat climate change. The agreements set norms and targets for a reduction in greenhouse gases.
- A4. The disclosure requirement proposed in paragraph 23(e) of [draft] S2 was designed to enable users of general purpose financial reporting to understand how the latest international agreement on climate change has informed the entity’s climate-related targets. In turn, such climate-related targets can represent an integral component of an entity’s plan to navigate the transition to a lower-carbon economy.