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Exposure Draft

IFRS[®] Sustainability Disclosure Standard

[Draft] IFRS S2 Climate-related Disclosures Appendix B Industry-based disclosure requirements

Volume B17—Insurance

Comments to be received by 29 July 2022



This industry from Appendix B Industry-based disclosure requirements accompanies the Exposure Draft ED/2022/S2 *Climate-related Disclosures* (published March 2022; see separate booklet). It is published by the International Sustainability Standards Board (ISSB) for comment only. Comments need to be received by 29 July 2022 and should be submitted by email to commentletters@ifrs.org or online at <https://www.ifrs.org/projects/open-for-comment/>.

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Introduction

This volume is part of Appendix B of [draft] IFRS S2 Climate-related Disclosures and is an integral part of that [draft] Standard. It has the same authority as the other parts of that [draft] Standard.

This volume sets out the requirements for identifying, measuring and disclosing information related to an entity's significant climate-related risks and opportunities that are associated with specific business models, economic activities and other common features that characterise participation in this industry.

The industry-based disclosure requirements are derived from SASB Standards (see paragraphs B10–B12 of [Draft] IFRS S2 *Climate-related Disclosures*). Amendments to the SASB Standards, described in paragraph B11, are marked up for ease of reference. New text is underlined and deleted text is struck through. The metric codes used in SASB Standards have also been included, where applicable, for ease of reference. For additional context regarding the industry-based disclosure requirements contained in this volume, including structure and terminology, application and illustrative examples, refer to Appendix B paragraphs B3–B17.

Insurance

Industry Description

The Insurance industry provides both traditional and nontraditional insurance-related products. Traditional policy lines include property, life, casualty, and reinsurance. Nontraditional products include annuities, alternative risk transfers, and financial guarantees. Companies in the insurance industry also engage in proprietary investments. Insurance companies generally operate within a single segment in the industry, e.g., property and casualty, although there are some large insurance companies with diversified operations. Similarly, companies may vary based on the level of their geographic segmentation. While large companies may underwrite insurance premiums in multiple countries, smaller companies generally operate at a national or even local level. Insurance premiums, underwriting revenue, and investment income drive industry growth, while insurance claim payments present the most significant cost and source of uncertainty for profits. Insurance companies provide products and services that enable the transfer, pooling, and sharing of risk necessary for a well-functioning economy. Insurance companies, through their products, can also create a form of moral hazard, lowering incentives to improve underlying behavior and performance, and thus contributing to sustainability impacts. Similar to other financial institutions, insurance companies face risks associated with credit and financial markets. Within the industry, companies that engage in non-traditional or non-insurance activities, including credit default swaps (CDS) protection and debt securities insurance, have been identified by regulators as being more vulnerable to financial market developments, and subsequently, more likely to amplify or contribute to systemic risk. As a result, insurance companies face the potential of being designated as Systemically Important Financial Institutions, thus exposing them to enhanced regulation and oversight.

Note: Accounting metrics for the material sustainability issues associated with the provision of health insurance are outlined in the SASB Managed Care (HC-MC) Industry Standard.

Sustainability Disclosure Topics & Metrics

Table 1. Sustainability Disclosure Topics & Metrics

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Incorporation of Environmental, Social, and Governance Factors in Investment Management	Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment management processes and strategies	Discussion and Analysis	n/a	FN-IN-410a.2
Policies Designed to Incentivize Responsible Behavior	Net premiums written related to energy efficiency and low carbon technology	Quantitative	Reporting currency	FN-IN-410b.1
	Discussion of products and/or product features that incentivize health, safety, and/or environmentally responsible actions and/or behaviors	Discussion and Analysis	n/a	FN-IN-410b.2
Environmental Physical Risk Exposure	Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes ²¹	Quantitative	Reporting currency	FN-IN-450a.1
	Total amount of monetary losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes, by type of event and geographic segment (net and gross of reinsurance) ²²	Quantitative	Reporting currency	FN-IN-450a.2
	Description of approach to incorporation of environmental risks into (1) the underwriting process for individual contracts and (2) the management of firm-level risks and capital adequacy	Discussion and Analysis	n/a	FN-IN-450a.3

continued...

²¹ Note to FN-IN-450a.1 – The entity shall describe climate-related scenarios used, including the critical input parameters, assumptions and considerations, analytical choices, and time frames, in calculation of the PML.

²² Note to FN-IN-450a.2 – The entity shall discuss how climate change-related impacts and variability of weather-related losses impact the cost of reinsurance and the entity's approach to transferring risk through reinsurance.

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TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Transition Risk Exposure	(1) Gross exposure to carbon-related industries, by industry (2) total gross exposure to all industries, and (3) percentage of total gross exposure to each carbon-related industry	Quantitative	Presentation currency, Percentage %	FN-IN-1
	Percentage of gross exposure included in the financed emissions calculation	Quantitative	Percentage %	FN-IN-2
	For each industry by asset class: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)	Quantitative	Metric tons (t) CO ₂ -e, Presentation currency	FN-IN-3
	For each industry by asset class: (1) gross emissions intensity of (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)	Quantitative	Metric tons (t) CO ₂ -e per unit of physical or economic output	FN-IN-4
	Description of the methodology used to calculate financed emissions	Discussion and Analysis	n/a	FN-IN-5

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Number of policies in force, by segment: (1) property and casualty, (2) life, (3) assumed reinsurance ²³	Quantitative	Number	FN-IN-000.A

²³ Note to FN-IN-000.A – The entity may additionally break down the number of policies in force by product line.

Incorporation of Environmental, Social, and Governance Factors in Investment Management

Topic Summary

Insurance companies are responsible for investing capital to ensure the preservation of premium revenues equivalent to expected policy claim payouts and must be able to maintain this asset-liability parity over the long term. As environmental, social, and governance (ESG) factors have increasingly been shown to have a material impact on the performance of corporations and other assets, there is an increasing need for insurance companies to incorporate these factors into the management of their investments. Failure to address these issues could lead to diminished risk-adjusted returns of their portfolios and limit a company's ability to issue claim payments. Companies should therefore enhance disclosure on how ESG factors, including climate change and natural resource constraints, are incorporated into the investment of policy premiums and affect the portfolio risk.

Metrics

FN-IN-410a.2. Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment management processes and strategies

- 1 The entity shall describe its approach to incorporation of environmental, social, and governance (ESG) factors in its investment management processes and strategies.
 - 1.1 The definition of incorporation of ESG factors is aligned with that of the Global Sustainable Investment Alliance (GSIA) and includes the use of ESG information in the investment decision-making processes.
 - 1.2 Examples of ESG factors/issues are provided in the PRI Reporting Framework – Main definitions 2018, section “ESG issues.”
 - 1.3 Incorporation of ESG factors include the following approaches, consistent with the PRI Reporting Framework – Main definitions 2018:
 - 1.3.1 Screening, including a) negative/exclusionary, b) positive/best-in-class, and c) norms-based
 - 1.3.2 Sustainability themed investment, defined as investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture)
 - 1.3.3 Integration of ESG, defined as the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions
 - 1.3.4 A combination of the above
- 2 The entity shall describe regulatory requirements it is subject to that limit the types of allowable investments the entity may make as well as allowable credit and equity risk the entity may be exposed to.

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- 2.1 The description of the entity's approach to incorporation of ESG factors in its investment management processes and strategies shall be provided in the context of the regulatory environment the entity is subject to.
- 3 The entity shall describe policies that determine its approach to incorporation of ESG factors in its investment management processes and strategies.
- 4 The entity shall describe its approach to implementation of the aspects of the entity's ESG incorporation practices.
 - 4.1 The discussion shall include, but is not limited to:
 - 4.1.1 Parties responsible for day-to-day incorporation of ESG factors
 - 4.1.2 Roles and responsibilities of employees involved
 - 4.1.3 Approach to conducting ESG-related research
 - 4.1.4 Approach to incorporating ESG factors into investment strategies
- 5 The entity shall describe its oversight/accountability approach to the incorporation of ESG factors.
 - 5.1 The discussion shall include, but is not limited to:
 - 5.1.1 Formal oversight individuals and/or bodies involved
 - 5.1.2 Roles and responsibilities of employees involved
 - 5.1.3 Criteria used in assessing the quality of ESG incorporation
- 6 The entity shall discuss whether it conducts scenario analysis and/or modeling in which the risk profile of future ESG factors at the portfolio level is calculated.
 - 6.1 ESG factors include, but are not limited to, climate change, natural resource constraints, human capital risks and opportunities, and cybersecurity risks.
- 7 The entity shall discuss ESG factors that it views as broadly applicable in terms of their impact on sectors and industries as well as the factors it views as sector- or industry-specific.
- 8 The entity shall describe whether it incorporates ESG factors in strategic asset allocation and/or allocation of assets between sectors or geographic markets.
- 9 The entity shall describe how ESG factors are incorporated into the assessment of and influence the entity's perspectives on:
 - 9.1 Time horizon of investments
 - 9.2 Risk and return profiles of investments
 - 9.3 Traditional fundamental factors such as economic conditions, Federal Reserve policy, industry factors, and geopolitical risks
- 10 Where relevant, the entity shall discuss its approach to incorporation of ESG factors in selecting external fund managers and fiduciary managers.

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- 10.1 The entity shall describe its oversight/accountability approach to assessing the quality of incorporation of ESG factors by external fund managers and fiduciary managers, which includes, but is not limited to:
 - 10.1.1 Formal oversight individuals and/or bodies involved
 - 10.1.2 Roles and responsibilities of employees involved
 - 10.1.3 Criteria used in assessing the quality of ESG incorporation
- 11 Where relevant, the description of the entity's approach to incorporation of ESG factors in its investment management activities shall be broken down by asset class or by style employed.
 - 11.1 The discussion shall include, but is not limited to, the differences in the entity's approaches to incorporation of ESG factors in:
 - 11.1.1 Public equity, fixed income, private equity, or alternative asset classes
 - 11.1.2 Passive versus active investment strategies
 - 11.1.3 Fundamental, quantitative, and technical analyses of investments

Policies Designed to Incentivize Responsible Behavior

Topic Summary

Advances in technology and the development of new policy products have allowed insurance companies to limit claim payments while encouraging responsible behavior. The industry is subsequently in a unique position to generate positive social and environmental externalities. Insurance companies have the ability to incentivize healthy lifestyles and safe behavior as well as the development of sustainability-related projects and technologies such as those focused on renewable energy, energy efficiency, and carbon capture. As the renewable energy industry continues to grow, insurance companies may seek related growth opportunities by underwriting insurance in this area. Additionally, such policy clauses that provide incentives through incorporation of environmental, social, and governance (ESG) factors can be used as tools to mitigate risk in the overall underwriting portfolio, which can reduce insurance payouts over the long term. Therefore, disclosure on premiums written related to energy efficiency and low carbon technology as well as discussion of how companies incentivize health, safety, and/or environmentally responsible actions or behaviors would allow investors to assess how insurance companies manage their performance on this topic.

Metrics

FN-IN-410b.2. Discussion of products and/or product features that incentivize health, safety, and/or environmentally responsible actions and/or behaviors

- 1 The entity shall describe how it incentivizes health, safety, and/or environmentally responsible actions or behaviors through incorporation of clauses in the insurance policies sold to clients and through pricing structure of the policies.
 - 1.1 The scope of disclosure includes policies underwritten in the Property & Casualty (P&C) and Life segments and excludes Health Insurance policies.
 - 1.2 The scope of disclosure includes the consumer insurance segment and the commercial insurance segment:
 - 1.2.1 The consumer segment includes homeowners, automotive, supplemental health and accident, and other personal insurance.
 - 1.2.2 The commercial segment includes casualty (e.g., liability, workers' compensation), property, specialty (e.g., crop, marine, political risk), and financial (e.g., errors and omissions, fiduciary liability) insurance.
- 2 Disclosure shall include a description of the aspects of traditional products that incentivize health, safety, and/or environmentally responsible actions or behavior. Such aspects include, but are not limited to:
 - 2.1 Premium discounts for green buildings
 - 2.2 Premium discounts for improving resource efficiency of properties
 - 2.3 Actuarially adjusted premiums for the use of low-emission vehicles, fuel-efficient non-hybrid vehicles, or alternative-fuel vehicles

- 2.4 Premium discounts for safer driving and lower use of personal vehicles
- 2.5 Premium discounts for healthy behavior (healthy diet, routine exercise, weight loss, giving up smoking/drinking)
- 3 The entity may disclose quantitative measures related to performance on underwriting of products with clauses incentivizing healthy, safe, and/or environmentally responsible actions or behavior such as:
 - 3.1 Number of policies incorporating such clauses
 - 3.2 Amount of premiums generated from the relevant products
 - 3.3 Quantitative measures of the associated social and environmental factors influenced through products (i.e., reduction in the amount of car accidents involving policyholders, amount of exercise hours per week, average amount of weight lost by a policyholder)

FN-IN-410b.1. Net premiums written related to energy efficiency and low carbon technology

- 1 The entity shall disclose the net premiums written for policies related to energy efficiency and low carbon technology, including renewable energy insurance, energy savings warranties, and carbon capture and storage insurance).
 - 1.1 The scope of disclosure includes policies that can be demonstrated to absorb environmental risks, thereby enabling sustainability-related projects, technologies, and activities.
 - 1.2 Renewable energy insurance may range from specialized protection against natural hazards or mechanical breakdowns to insurance against fluctuations in the availability of wind or solar radiation.
 - 1.3 Energy savings warranties insure the energy savings guaranteed by Energy Services Companies (ESCOs) for building retrofitting and other energy efficiency projects.
- 2 The scope of disclosure shall include policies where the insurer has separately priced and identified such net premiums in its billing to the customer.

Environmental Physical Risk Exposure

Topic Summary

Catastrophe losses associated with extreme weather events will continue to have a material, adverse impact on the Insurance industry. The extent of this impact is likely to evolve as climate change increases the frequency and severity of both modeled and non-modeled natural catastrophes, including hurricanes, floods, and droughts. Failure to appropriately understand environmental risks and price them into the underwritten insurance products may result in higher than expected claims on policies. Subsequently, insurance companies that incorporate climate change considerations into their underwriting process for individual contracts as well as the management of firm-level risks and capital adequacy will be better positioned to protect shareholder value. Enhanced disclosure of a company's approach to incorporating these factors, in addition to quantitative data such as the probable maximum loss and total losses attributable to insurance payouts, will provide investors with the information necessary to assess current and future performance on this issue.

Metrics

FN-IN-450a.1. Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes

- 1 The entity shall disclose the Probable Maximum Loss (PML) of insured products from natural peril catastrophe events.
 - 1.1 PML is defined as the anticipated value of the largest monetary loss affecting the entity's insurance portfolio that could result from weather-related natural catastrophes and is based on catastrophe modeling and exceedance probability (EP).
 - 1.2 The scope of disclosure by a natural peril catastrophe event includes: hurricanes (typhoons), tornadoes, tsunamis, floods, droughts, extreme heat, and winter weather.
- 2 The entity shall disclose the PML using, at a minimum, three likelihood of exceedance scenarios: (1) 2% (1-in-50); (2) 1% (1-in-100); (3) 0.4% (1-in-250).
 - 2.1 The entity may disclose additional likelihood of exceedance scenarios.
- 3 The entity shall provide the PML breakdown by geographic location.
 - 3.1 ~~Geographic location breakdown shall be aligned with that required by the Regulation S-K item 101(d).~~
- 4 The entity shall report the PML amount on gross and net of catastrophe reinsurance bases.
 - 4.1 The gross PML is the gross probable maximum loss for natural peril catastrophe events (prior to reinsurance) for annual aggregate exposure to all risks, including reinstatement premiums for the year following the relevant year based upon the entity's catastrophe model.

4.2 The net PML is the net probable maximum loss for natural peril catastrophe events (after reinsurance) for annual aggregate exposure to all risks, including reinstatement premiums for the year following the relevant year based upon the entity's catastrophe model.

5 Disclosure shall be provided for relevant geographic regions.

6 The entity may summarize the breakdown of the PML in the following table:

Table 3. Gross PML

	1-IN-50	1-IN-100	1-IN-250
Hurricanes (Typhoons)			
Tornadoes			
Tsunamis			
Floods			
Droughts			
Extreme Heat			
Winter Weather			

Table 4. Net PML

	1-IN-50	1-IN-100	1-IN-250
Hurricanes (Typhoons)			
Tornadoes			
Tsunamis			
Floods			
Droughts			
Extreme Heat			
Winter Weather			

Note to **FN-IN-450a.1**

1 The entity shall describe climate-related scenarios used, including the critical input parameters, assumptions and considerations, analytical choices, and time frames, in calculation of the PML, as aligned with the Task Force on Climate-related Financial Disclosures (TCFD) Supplemental Guidance for Insurance Companies.

FN-IN-450a.2. Total amount of monetary losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes, by type of event and geographic segment (net and gross of reinsurance)

1 The entity shall disclose the amount of policyholder benefits paid and claims incurred during the reporting period as a result of incurred policy losses and benefits expenses related to modeled and non-modeled natural peril catastrophe events.

1.1 The scope of disclosure by a natural peril catastrophe event includes: hurricanes (typhoons), tornadoes, tsunamis, floods, droughts, extreme heat, and winter weather.

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- 2 Benefits and claims incurred shall be disclosed in accordance with ~~the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 944 Financial Services—Insurance~~ IFRS 17 Insurance Contracts.
- 3 The entity shall break down the policy losses and benefits expenses for modeled and non-modeled natural peril catastrophe events.
 - 3.1 Modeled natural catastrophes are typically large-scale events, such as hurricanes and earthquakes, that the entity has analyzed using a catastrophic risk model.
 - 3.2 Non-modeled events are typically smaller-scale events, such as floods, droughts, snowstorms, and tornados, that the entity has not analyzed using a catastrophic model (CAT model).
 - 3.2.1 CAT models are probabilistic mathematical models that simulate hazardous events and estimate the associated potential damages and insured losses. They may be conducted by the entity or by a third party on behalf of the entity.
- 4 The entity shall break down the policy losses and benefits expenses by geographic segment.
- 5 The entity shall break down the policy losses and benefits expenses by natural peril catastrophe events.
 - 5.1 Where relevant, natural peril catastrophe events include: hurricanes (typhoons), tornadoes, tsunamis, floods, droughts, extreme heat, and winter weather.
- 6 The entity shall report the policy losses and benefits expenses on a gross and net of catastrophe reinsurance base.
 - 6.1 The net amount shall be calculated as the gross amount of policy losses and benefits expenses from natural peril catastrophe events minus the recoverables from ceded reinsurance.
- 7 The entity shall consider ~~the FASB's ASC Topic 944—Financial Services—Insurance~~ IFRS 17 Insurance Contracts a normative reference, thus any future updates made to it shall be considered updates to this guidance.

Note to **FN-IN-450a.2**

- 1 The entity shall discuss its strategy around enhancing catastrophe modeling.
- 2 The entity shall discuss how climate change-related impacts and variability of weather-related losses impact the cost of reinsurance and the entity's approach to transferring risk through reinsurance.

FN-IN-450a.3. Description of approach to incorporation of environmental risks into (1) the underwriting process for individual contracts and (2) the management of firm-level risks and capital adequacy

- 1 The entity shall describe its approach to incorporation of environmental risks into both individual policyholder contracts and enterprise-wide assessments of risk.

- 2 The entity shall describe the processes for identifying and assessing climate-related risks on insurance and reinsurance portfolios by geography, business division, or product segments.
 - 2.1 Climate-related risks are defined by the Task Force on Climate-related Financial Disclosures (TCFD) as:
 - 2.1.1 Physical risks from changing frequencies and intensities of weather-related perils
 - 2.1.2 Transition risks resulting from a reduction in insurable interest due to a decline in value, changing energy costs, or implementation of carbon regulation
 - 2.1.3 Liability risks that could intensify due to a possible increase in litigation
- 3 The entity shall describe what it considers to be the relevant short-, medium-, and long-term horizons in the context of underwriting process for individual contracts as well as the management of firm-level risks and capital adequacy.
- 4 The entity shall describe specific climate-related risks for each time horizon (short, medium, and long term) that the entity considers in the underwriting process for individual contracts as well as in the management of firm-level risks and capital adequacy.
- 5 The entity shall describe the process for integration of climate-related risks in probabilistic mathematical models (i.e., catastrophic models).
 - 5.1 Discussion shall include, but is not limited to:
 - 5.1.1 The use of new and emerging datasets (e.g., for dam burst risk)
 - 5.1.2 The use of the critical input parameters, assumptions and considerations, and analytical choices
 - 5.2 Discussion shall be provided in the context of the relevant short-, medium-, and long-term horizons.
- 6 The entity shall describe how outputs of catastrophe models inform its underwriting decisions.
 - 6.1 Discussion shall include, but is not limited to:
 - 6.1.1 Development of insurance and reinsurance products which take into account climate-related risks
 - 6.1.2 Pricing of insurance and reinsurance policies
 - 6.1.3 Client selection (i.e., type of events the entity chooses to cover or not and/or geographic markets in which the entity chooses not to underwrite policies)
 - 6.1.4 Cedent selection (i.e., decisions on the amount of risk the entity chooses to transfer through reinsurance)
 - 6.2 Discussion shall be provided in the context of the relevant short-, medium-, and long-term horizons.

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- 7 The entity shall describe the process for incorporation of clauses in the insurance policies sold to clients that incentivize reduction of exposure to climate-related risks of insured assets through pricing structure of the policies.
 - 7.1 Discussion shall include, but is not limited to, incentives such as:
 - 7.1.1 The use of sustainable building materials
 - 7.1.2 Enhancement of the weather resiliency of properties
 - 7.1.3 Coverage of properties in communities with building codes requiring climate-risk adaptations
- 8 The entity shall discuss the process for integration of environmental risks into enterprise-wide assessments.
 - 8.1 Discussion shall include, but is not limited to:
 - 8.1.1 Consideration of risks by segment (e.g., life versus property and casualty)
 - 8.1.2 Capital adequacy
 - 8.1.3 Contingency planning for market failure (i.e., from numerous disaster-related claims)
 - 8.1.4 Use of alternative risk transfer (e.g., catastrophe bonds, weather derivatives)
 - 8.2 Discussion shall be provided in the context of the relevant short-, medium-, and long-term horizons.
- 9 The entity may discuss how sustainability risks are integrated into its use of an enterprise risk management (ERM) framework, such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management–Integrated Framework.

Transition Risk Exposure

Topic Summary

Insurance companies invest premium revenue to meet insurance claim pay-outs and need to consider asset-liability management. In managing their investments, insurance entities increasingly need to consider climate-related risks and opportunities, such as those associated with technological innovations and increasing pressure to comply with emerging policy and regulation. Failure to manage these issues could lead to diminished risk-adjusted returns on investment portfolios and limit an entity's ability to meet insurance claims. Measuring greenhouse gas (GHG) emissions associated with investments—a concept commonly referred to as 'financed emissions'—can enhance understanding of exposure to such risks and opportunities and associated transition planning.

Metrics

FN-IN-1. (1) Gross exposure to carbon-related industries, by industry (2) total gross exposure to all industries, and (3) percentage of total gross exposure to each carbon-related industry

- 1 The entity shall disclose gross exposure to carbon-related industries, by industry.
 - 1.1 For funded amounts, gross exposure is defined as the funded carrying amount, expressed in the presentation currency of the entity's financial statements whether prepared in accordance with IFRS Accounting Standards or other GAAP.
 - 1.1.1 Carrying amount refers to the amount before subtracting the loss allowance, when applicable.
 - 1.2 For undrawn loan commitments, gross exposure is defined as the full amount of the commitment expressed in the presentation currency of the entity's financial statements.
 - 1.3 For derivatives, gross exposure is defined as the contractual amounts to be exchanged in a derivative for which gross cash flows are exchanged, or the net amounts in a derivative for which net cash flows are exchanged, as applicable, expressed in the presentation currency of the entity's financial statements.
 - 1.4 Carbon-related industries are industries responsible for relatively high direct or indirect GHG emissions.
 - 1.4.1 Carbon related industries include but are not limited to:
 - Oil, Gas & Consumable Fuels
 - Chemicals, Construction Materials, Metals & Mining, and Paper & Forest Products
 - Air Freight & Logistics, Airlines, Marine, and Road & Rail
 - Automobiles
 - Homebuilding

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- Beverages and Food Products
 - Electric Utilities, Gas Utilities and Multi Utilities
 - Real Estate Management & Development
- 1.4.2 The entity shall use the Global Industry Classification Standard (GICS) 6-digit industry-level code for classifying counterparties.
- 1.4.2.1 The entity shall use the latest version of the classification system available at the date of reporting.
- 1.4.3 The entity shall disclose the classification standard used if different from GICS.
- 2 The entity shall disclose its gross exposure to all industries.
- 3 The entity shall disclose the percentage of total gross exposure for each carbon-related industry.
- 3.1 The entity shall calculate the percentage by dividing its gross exposure to each carbon-related industry by the total gross exposure to all industries.
- 4 The scope of disclosure includes but is not limited to loans, project finance, bonds, equity investments and derivatives.
- 4.1 Undrawn loan commitments to carbon-related industries shall be disclosed separately.
- 4.1.1 For undrawn loan commitments, the entity shall separately calculate the percentage by dividing the full amount of undrawn loan commitments to carbon related industries by the full amount of undrawn loan commitments to all industries.
- 4.2 The entity may additionally calculate and disclose gross exposure to other asset classes.
- 4.2.1 In such cases, the entity shall include an explanation of why the inclusion of those additional asset classes provides more relevant information to primary users of general purpose financial reporting.

FN-IN-2. Percentage of gross exposure included in the financed emissions calculation

- 1 The entity shall disclose the percentage of gross exposure included in the financed emissions calculation.
- 1.1 For funded amounts, gross exposure is defined as the funded carrying amounts expressed in the presentation currency of the entity's financial statements whether prepared in accordance with IFRS Accounting Standards or other GAAP.
- 1.1.1 Carrying amount means the amount before subtracting the loss allowance, when applicable.

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- 1.2 For undrawn loan commitments, gross exposure is defined as the full amount of the commitment expressed in the presentation currency of the entity's financial statements.
- 1.3 For derivatives, gross exposure is defined as the contractual amounts to be exchanged in a derivative for which gross cash flows are exchanged, or the net amounts in a derivative for which net cash flows are exchanged, as applicable, expressed in the presentation currency of the entity's financial statements.
- 2 The entity shall calculate the percentage by dividing the gross exposure included in the financed emissions calculation by total gross exposure to all industries and asset classes.
 - 2.1 If less than 100%, the entity will provide an explanation for exclusions including type of assets.
- 3 The scope of disclosure includes but is not limited to loans, bonds, equity investments and derivatives.
- 4 The percentage of undrawn loan commitments included in the financed emissions calculation shall be disclosed separately.
 - 4.1 The entity shall calculate the percentage by dividing the full amount of undrawn loan commitments included in the financed emissions calculations by the full amount of undrawn loan commitment to all industries and asset classes.

FN-IN-3. For each industry by asset class: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)

- 1 The entity shall disclose its absolute gross financed emissions, disaggregated by Scope 1, Scope 2, and Scope 3 emissions for each industry by asset class.
 - 1.1 Financed emissions refers to the portion of gross emissions of an investee or counterparty attributed to the loans and investments made by the entity to the investee or counterparty which falls under Scope 3: category 15 (investments) in accordance with the GHG Protocol Corporate Value Chain (Scope 3) Standard.
 - 1.2 Absolute gross emissions are defined as the total quantity of Scope 1 emissions, Scope 2 emissions or Scope 3 emissions expressed in metric tons of CO₂ equivalent (i.e., mt CO₂-e).
 - 1.3 Gross emissions are GHGs emitted into the atmosphere before accounting for offsets and credits that have reduced or compensated for emissions.
 - 1.4 Scope 1, Scope 2, and Scope 3 emissions are defined and shall be calculated according to the methodology contained in The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol), Revised Edition, March 2004, published by the World Resources Institute and the World Business Council on Sustainable Development (WRI/WBCSD).
- 2 The entity shall disclose the gross exposure for each industry by asset class.

APPENDIX B OF [DRAFT] IFRS S2 CLIMATE-RELATED DISCLOSURES

- 2.1 For funded amounts, gross exposure is defined as the funded carrying amounts, and additionally for loans expressed in the presentation currency of the entity's financial statements whether prepared in accordance with IFRS Accounting Standards or other GAAP.

 - 2.1.1 Carrying amount means the amount before subtracting the loss allowance, when applicable.
- 2.2 Undrawn loan commitments shall be disclosed separately using the full amount of the commitment expressed in the presentation currency of the entity's financial statements.
- 2.3 For derivatives, gross exposure is defined as the contractual amounts to be exchanged in a derivative for which gross cash flows are exchanged, or the net amounts in a derivative for which net cash flows are exchanged, as applicable, expressed in the presentation currency of the entity's financial statements.
- 3 The scope of the disclosure shall include all industries, not only carbon-related industries.

 - 3.1 The entity shall use the Global Industry Classification Standard (GICS) 6-digit industry-level code for classifying counterparties.

 - 3.1.1 The entity shall use the latest version of the classification system available on the date of reporting.
 - 3.2 The entity shall disclose the classification standard used if different from GICS.
- 4 Asset classes shall include but are not limited to loans, bonds, equity investments and derivatives, as well as undrawn loan commitments.

 - 4.1 The entity may additionally calculate and disclose financed emissions for other asset classes.

 - 4.1.1 In such cases, the entity shall include an explanation of why the inclusion of those additional asset classes provides more relevant information to users of general purpose financial reporting.

FN-IN-4. For each industry by asset class: (1) gross emissions intensity of (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)

- 1 The entity shall disclose the gross emissions intensity of financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 emissions, for each industry by asset class.

 - 1.1 Financed emissions refers to the portion of gross emissions of an investee or counterparty attributed to the loans and investments made by the entity to the investee or counterparty which falls under Scope 3: category 15 (investments) in accordance with the GHG Protocol Corporate Value Chain (Scope 3) Standard.

- 1.2 Emissions intensity is defined as the amount of Scope 1 emissions, Scope 2 emissions and Scope 3 emissions per unit of economic or physical activity (e.g., mt CO₂-e/ USD 1 million of total invested assets or mt CO₂-e/MWh).
- 1.3 Gross emissions are GHGs emitted into the atmosphere before accounting for offsets and credits that have reduced or compensated for emissions.
- 1.4 Scope 1, Scope 2, and Scope 3 emissions are defined and shall be calculated according to the methodology contained in The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol), Revised Edition, March 2004, published by the World Resources Institute and the World Business Council on Sustainable Development (WRI/WBCSD).
- 2 The entity shall disclose gross exposure to each industry by asset class.
 - 2.1 For funded amounts, gross exposure is defined as the funded carrying amounts expressed in the presentation currency of the entity's financial statements whether prepared in accordance with IFRS Accounting Standards or other GAAP.
 - 2.1.1 Carrying amount means the amount before subtracting the loss allowance, when applicable.
 - 2.2 Undrawn loan commitments shall be disclosed separately using the full amount of the commitment expressed in the presentation currency of the entity's financial statements.
 - 2.3 For derivatives, gross exposure is defined as the contractual amounts to be exchanged in a derivative for which gross cash flows are exchanged, or the net amounts in a derivative for which net cash flows are exchanged, as applicable, expressed in the presentation currency of the entity's financial statements.
- 3 The scope of the disclosure shall include all industries, not only carbon-related industries.
 - 3.1 The entity shall use the Global Industry Classification Standard (GICS) 6-digit industry-level code for classifying counterparties.
 - 3.1.1 The entity shall use the latest version of the classification system available on the date of reporting.
 - 3.2 The entity shall disclose the classification standard used if different from GICS.
- 4 Asset classes shall include but are not limited to loans, bonds, equity investments and derivatives, as well as undrawn loan commitments.
 - 4.1 The entity may additionally calculate and disclose financed emissions for other asset classes.
 - 4.1.1 In such cases, the entity shall include an explanation of why the inclusion of those additional asset classes provides more relevant information to users of general purpose financial reporting.

FN-IN-5. Description of the methodology used to calculate financed emissions

- 1 The entity shall describe the methodology used to calculate financed emissions.
 - 1.1 Financed emissions refers to the portion of gross emissions of an investee attributed to the investments made by the entity to that investee, which falls under Scope 3: category 15 (investments) in accordance with the GHG Protocol Corporate Value Chain (Scope 3) Standard.
 - 1.1.1 Gross emissions are GHGs emitted into the atmosphere before accounting for offsets and credits that have reduced or compensated for emissions.
 - 1.2 The description shall include the method used to attribute the entity's share of emissions in relation to the size of gross exposure.
 - 1.3 The description shall include the approach to collecting underlying emissions data including its source.
 - 1.4 The entity shall disclose if the source data has been verified by a third party, where possible.
 - 1.5 The entity shall describe the use of estimations, proxies or assumptions, where possible.
 - 1.6 If the entity is unable to include GHG emissions of an investee or counterparty, it shall state the reason for the omission such as, for example, because it is unable to establish a faithful measure.