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Mr Emmanuel Faber
International Sustainability Standards
Board
Opfernplatz 14
60313 Frankfurt am Main
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Our ref BOD/288

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Dear Mr Faber

**Exposure Draft – Amendments to Greenhouse Gas Emissions Disclosures –
Proposed targeted amendments to IFRS S2**

We appreciate the opportunity to comment on the International Sustainability Standard Board's (ISSB's) Exposure Draft *ISSB/ED/2025/1 Amendments to Greenhouse Gas Emissions Disclosures – Proposed targeted amendments to IFRS S2* (the ED). We have consulted with, and this letter represents the views of, the KPMG network.

Overall, we support the ISSB's efforts to clarify the requirements in IFRS S2 related to the disclosure of greenhouse gas (GHG) emissions on a timely basis. We note that the scope of the consultation relates to targeted amendments to IFRS S2 that are intended to be pragmatic, and our comments are therefore made in that spirit.

We appreciate the ISSB's work to balance the interests of investors with the reporting burden on preparers. We believe that most of the proposals will provide additional relief to entities implementing IFRS S2 without disrupting their existing implementation efforts. However, we have concerns about the clarity and usefulness of some of the proposals. Our key concerns relate to the following areas:

- Scope 3 Category 15 GHG emissions; and
- use of the Global Industry Classification Standard (GICS).

Scope 3 Category 15 GHG emissions

We support the ISSB's efforts to clarify the requirements in IFRS S2 and provide relief relating to Scope 3 Category 15 GHG emissions. We have specific comments on the following areas.

Nature of the relief

Overall, we agree with the pragmatic solution proposed by the ISSB to limit the disclosure of Scope 3 Category 15 GHG emissions to 'financed emissions' as defined in IFRS S2 i.e. excluding facilitated, insurance-associated and derivatives-related emissions. However, we recommend that the ISSB reassess the necessity of this relief

as part of a post-implementation review of IFRS S2, given data, calculation methodologies and reporting practices are evolving. This may provide an opportunity for moving to fully principles-based requirements in the future.

Definition of financed emissions

We agree with the proposals clarifying that emissions relating to assets under management are in the scope of ‘financed emissions’ as defined in IFRS S2. We suggest that this clarification could be more effectively achieved by amending the definition of ‘financed emissions’ in Appendix A of IFRS S2 in addition to adding guidance to paragraph 29A(a).

See our detailed comments in response to Question 1(a).

Disclosing information about what is excluded from Scope 3 Category 15 GHG emissions

We disagree with the proposal to require information about the amount of derivatives and other financial activities excluded from Scope 3 Category 15 GHG emissions disclosures. We believe that the disclosure requirement proposed reduces the benefit of the relief and are concerned with the reliance on undefined terms.

See our detailed comments in response to Question 1(b).

Use of GICS

We disagree with the proposed requirement to use GICS where part of a group already uses GICS. We are concerned that the number of entities benefiting from the relief could be limited, therefore not achieving the intended effect. We are also concerned about the potential duplication of effort required to run parallel classification systems and the possibility that reconciliation efforts may be high without necessarily improving the quality of the information disclosed.

See our detailed comments in response to Question 2.

Please contact Brian O'Donovan (brian.odonovan@kpmgifrg.com), Mark Vaessen (Vaessen.Mark@kpmg.nl) or Sinead Slattery (Sinead.slattery@kpmgifrg.com) if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix

KPMG's responses to the specific questions raised in the exposure draft

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

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

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

Consequently, this paragraph would permit an entity to exclude emissions associated with derivatives, facilitated emissions or insurance-associated emissions from its disclosure of Scope 3 greenhouse gas emissions.

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

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

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

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

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

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

The term 'derivatives' is not defined in IFRS Sustainability Disclosure Standards, and the ISSB does not propose to define this term. As a result, an entity is required to apply judgement to determine what it treats as derivatives for the purposes of limiting its disclosure of Scope 3 Category 15 greenhouse gas emissions, in accordance with the proposed paragraph 29A(a). The proposed paragraph 29A(b)(i) would require an entity that has excluded derivatives from its measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions to explain the derivatives it excluded.

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

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

- (a) We support the ISSB's efforts to clarify the requirements in IFRS S2 and provide relief relating to Scope 3 Category 15 GHG emissions. We agree, however, we have specific comments on the following areas.

Nature of the relief

Overall, we agree with the pragmatic solution proposed by the ISSB to limit the disclosure of Scope 3 Category 15 GHG emissions to 'financed emissions' as defined in IFRS S2 – i.e. excluding facilitated, insurance-associated and derivatives-related emissions. However, we recommend that the ISSB reassess the necessity of this relief as part of a post-implementation review of IFRS S2, given data, calculation methodologies and reporting practices are evolving. This may provide an opportunity for moving to fully principles-based requirements in the future.

Definition of financed emissions

We agree with the proposals clarifying that emissions relating to assets under management are in the scope of 'financed emissions' as defined in IFRS S2. We suggest that this clarification could be more effectively achieved by amending the definition of 'financed emissions' in Appendix A of IFRS S2 in addition to adding guidance to paragraph 29A(a), because managed investments which are off-balance sheet are neither a loan nor investment made by an entity. We think that the ISSB could utilise the industry descriptions in Volumes 15-17 of the *Industry-based Guidance on Implementing Climate-related Disclosures* in providing guidance on the type of activities an entity participates in which would be included in the scope of the financed emissions disclosure requirements.

- (b) We disagree with the proposal to require information about the amount of derivatives and other financial activities excluded from Scope 3 Category 15 GHG emissions disclosures. We believe that the proposed disclosure requirement reduces the potential benefit of the relief and are concerned with the reliance on undefined terms.

IFRS® Sustainability Disclosure Standards do not define ‘derivatives’. The lack of guidance on how an entity should define or treat ‘derivatives’ could lead to inconsistent application. Furthermore, this may hinder the alignment between an entity’s sustainability-related financial disclosures and its financial statements.

In addition, IFRS Sustainability Disclosure Standards do not define ‘financial activities’ and we anticipate interpretation issues and inconsistency in application arising from the requirement to disclose the “amount of other financial activities” excluded, in the absence of further guidance. Furthermore, it is not clear what is meant by amount and how the amount disclosed under IFRS S2 would relate to what is recognised and disclosed in the financial statements – e.g. would an amount of derivatives be a nominal amount or fair value?

Requiring the “the amount of derivatives it excluded and an explanation of what it treats as derivatives” and “the amount of other financial activities” may not yield useful information about the completeness of an entity’s GHG emissions inventory or emissions exposure, particularly where a material amount of derivatives or other financial activities may not always represent a material emissions exposure.

We recommend that if an entity applies the relief, it should:

- disclose that fact; and
- provide a description of the instruments/activities for which it has taken the relief.

Question 2— Use of the Global Industry Classification Standard in applying specific requirements related to financed emissions
<p>Paragraphs 29(a)(vi)(2) and B62–B63 of IFRS S2 require entities with commercial banking or insurance activities to disclose additional information about their financed emissions. These entities are required to use the Global Industry Classification Standard (GICS) for classifying counterparties when disaggregating their financed emissions information in accordance with paragraphs B62(a)(i) and B63(a)(i) of IFRS S2.</p> <p>(a) The ISSB proposes to amend the requirements in paragraphs B62(a)(i) and B63(a)(i) of IFRS S2 and to add paragraphs B62A–B62B and B63A–B63B that would provide relief to an entity from using GICS in some circumstances. Under the proposals, an entity can use an alternative industry-classification system in</p>

some circumstances when disaggregating financed emissions information disclosed in accordance with paragraphs B62(a)–B62(b) and B63(a)–B63(b) of IFRS S2.

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

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

- (b) The ISSB also proposes to add paragraphs B62C and B63C to require an entity to disclose the industry-classification system used to disaggregate its financed emissions information and, if the entity does not use GICS, to explain the basis for its industry-classification system selection.

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

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

- (a) We disagree with this proposal. Our concerns focus on the requirement to use GICS where part of a group already uses GICS.

Based on the proposals, a large multinational group would be required to use GICS, if GICS is used anywhere in the group regardless of the materiality of that part of the group – i.e. the classification system a group uses for disaggregating financed emissions could be driven by a small part of the group even if the rest of the group already uses a different system to GICS. Therefore, the policy of a subsidiary would override the group's sustainability reporting policy.

We are concerned that the number of entities benefiting from the relief could be limited, therefore not achieving the intended effect. We are also concerned about the potential duplication of effort required to run parallel classification systems and the possibility that reconciliation efforts may be high without necessarily improving the quality of the information disclosed.

As an alternative approach, we recommend the ISSB consider permitting an entity to apply judgement to select a single classification system for disaggregating emissions which aligns with classification systems used for financial and regulatory reporting purposes. Where GICS is already used by a significant part of the group, an entity could be encouraged to use GICS. This would enable flexibility while maintaining comparability.

We recommend that the ISSB carefully considers the feedback received during this consultation from the stakeholders – preparers, investors, regulators and standard setters – who would be most impacted by this aspect of the proposals and are in the best position to comment on whether the relief is sufficient.

- (b) We agree with the proposal in B62C and B63C to require an entity to disclose the industry-classification system used to disaggregate its financed emissions information and, if the entity does not use GICS, to explain the basis for its industry-classification system selection. We believe this disclosure requirement is critical given our recommendations in section (a) above.

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

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

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

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

We agree with the proposals.

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

The ISSB proposes to amend paragraphs B21–B22 of IFRS S2 to extend the jurisdictional relief in the Standard. The ISSB proposes that if an entity is required, in whole or in part, by a jurisdictional authority or exchange on which it is listed to use global warming potential (GWP) values other than the GWP values that are required by paragraphs B21–B22 of IFRS S2, the entity would be permitted to use the GWP values required by such a jurisdictional authority or an exchange for the relevant part of the entity, for as long as that requirement is applicable.

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

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

We agree with the proposals subject to the following clarifications:

- Paragraph BC49 explains that the ISSB decided not to propose additional disclosure requirements and reiterates that an entity would still be required to disclose its measurement approach, inputs and assumptions it has used to measure its GHG emissions. We believe it would be helpful to also reference the disaggregation requirements in paragraphs B29–B30 of IFRS S1 in this section of the Basis for Conclusions to reiterate the importance of that guidance.
- Amend the example in paragraph BC49(b) to clarify that an entity might include an explanation of why *part of* the entity has not used the GWP values from the latest Intergovernmental Panel on Climate Change (IPCC) assessment.

Question 5—Effective date

The ISSB proposes to add paragraphs C1A–C1B which would specify the effective date of the amendments. The ISSB expects the amendments would make it easier for entities to apply IFRS S2 and would support entities in implementing the Standard. Consequently, the ISSB proposes to set the effective date so that the amendments would be effective as early as possible and to permit early application.

Paragraphs BC50–BC51 of the Basis for Conclusions describe the reasons for the proposal.

Do you agree with the proposed approach for setting the effective date of the amendments and permitting early application? Why or why not?

We agree with the proposed approach to set the effective date so that the amendments become effective as early as possible, while also permitting early application. We recognise the urgency of these amendments, as entities and jurisdictions are already in the process of implementing and adopting IFRS Sustainability Disclosure Standards and may wish to apply the amendments concurrently with their ongoing implementation and adoption efforts.

Question 6—Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

Scope 3 GHG emissions optionality in the GHG Protocol Value Chain Standard

Paragraph BC14 references a footnote that contains clarifying information regarding optional categories and subcategories within the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (“GHG Protocol Value Chain Standard”) and the interaction with IFRS S2. This has been an area of significant debate in practice and has driven many application questions.

The footnote states that the optional provisions in the GHG Protocol Value Chain Standard such as the optionality within Category 15, are not used to determine what is included in the measure of the entity's Scope 3 GHG emissions. Instead, an entity that applies IFRS S2 is required to include the emissions associated with those categories in its disclosure of Scope 3 GHG emissions, if material.

We support the ISSB emphasising the requirements of IFRS S2 and how they interact with the GHG Protocol Value Chain Standard and acknowledge and welcome the educational materials published by the ISSB on 29 May 2025 on the measurement and disclosure of GHG emissions under IFRS S2.

However, we recommend that the ISSB provides additional guidance, which could be in the form of educational materials or illustrative examples, for:

- considering the 15 categories in the GHG Protocol Value Chain Standard;
- determining which categories are relevant for an entity's value chain; and
- determining if the disclosure would provide material information.

Additionally, in the longer term, it would be useful for the ISSB to clarify the interaction between the GHG Protocol Value Chain Standard and IFRS S2 in the standard itself – e.g. as part of Appendix B application guidance – instead of relying on the Basis for Conclusions and educational materials.