



IFRS S2 Amendments

UK Finance's response to
ISSB's Exposure Drafts

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IFRS S2: Amendments to Greenhouse Gas Emissions Disclosures

Executive Summary

UK Finance is pleased to respond to the International Sustainability Standards Board's (ISSB) [Exposure Drafts](#) proposing amendments to IFRS S2 to provide targeted relief. We are the collective voice for the financial services industry. Representing around 300 firms, we act to enhance competitiveness, support customers, and facilitate innovation.

Key recommendations:

- **On measurement and disclosure of Scope 3 Category 15, members welcome the additional clarity** provided by this proposed relief and the exclusion of derivatives and facilitated emissions. We provide examples of additional balances that members believe should be excluded under “other financial activities” on a principles-based basis. Members, however, **did not support the proposal to disclose information about the magnitude** of derivatives and excluded financial activities.
- **On the use of Global Industry Classification Standard (GICS)** for specific financed emissions disclosures, members were supportive of introducing flexibility. However, we **recommend allowing financial institutions to choose the most appropriate classification system** for each part of their organisation. We suggest ways to achieve that in our submission.
- We are **broadly supportive of the other proposed amendments** on the jurisdictional relief from using the GHG Protocol Corporate Standard and on the applicability of the jurisdictional relief for global warming potential (GWP) values. We raise concerns and considerations for the ISSB to monitor while implementing those reliefs.

General feedback and next steps

- **A positive direction of travel:** most members strongly support the amendments and the reliefs provided, which recognise the need for flexibility and the progress that some methodologies still need to make to fully demonstrate the usefulness of some reporting metrics.
- **Encouraging voluntary disclosure:** the ISSB should keep promoting voluntary disclosure for Category 15 where material, and where methodologies or data are available, with a view to monitor future progress and consult with industry at an appropriate time to assess market evolution. This would allow time for market participants to gain experience, methodologies to mature, and investor expectations to evolve.
- **We remain strongly supportive of the ISSB's work on standards as a global baseline,** and have called for their implementation in the UK without substantive changes¹. Members don't expect these amendments to disrupt the overall implementation of the standards.
- **Implementation and next steps:** implementation of the amendments should be timely and, following their issuance, the ISSB should encourage countries to adopt the amendments before the one-year minimum scope 3 transition relief expires.
- **Guidance and educational material:** the ISSB should keep building its educational material, guidance, etc. to support firms in providing the information required (including, as covered below, to reduce ambiguity around what constitutes a derivative or facilitated activity). Guidance should also be made available to provide more clarity on expectations for auditors, particularly on the level of assurance that would be required.

Measurement and disclosure of Scope 3 Category 15 GHG emissions

¹ See for instance our [joint response](#) with the Association for Financial Markets in Europe (AFME) to the UK Sustainability Disclosures Technical Advisory Committee call for evidence.

Members broadly agree with the proposed amendment and welcome the additional clarity provided by this proposed relief. Members would like to highlight some areas for further consideration by the ISSB.

Exclusion of emissions associated with facilitated emissions

Members broadly agree with this exclusion.

Members who have started (or are in the process of) reporting on facilitated emissions highlighted they mainly did so because of investors' asks, or as part of industry initiatives – e.g. under the Net Zero Banking Alliance (NZBA) or Partnership for Carbon Accounting Financials (PCAF).

Following this exercise, some firms found that facilitated emissions were not material. Members' assessment is, in most instances, that reporting of absolute facilitated emissions does not provide decision-useful information to investors.

- Absolute facilitated emissions — such as those from underwriting bonds or arranging syndicated loans — are significantly more indirect and less attributable to banks than financed emissions (associated with direct lending activity)².
- Absolute facilitated emissions can be highly volatile year-over-year, lack comparability, and do not provide meaningful insight into how a bank is approaching climate-related risks or opportunities.

Exclusion of emissions associated with derivatives

Members agree with this exclusion. They highlighted clear risks of double counting, the lack of established methodology, and a general lack of clarity as sufficient rationales for this exclusion.

The ISSB should consider offering specific guidance on the application of this exclusion, given the absence of a definition for “derivatives”. Whilst we understand

² For facilitation activity, the bank is not the capital provider — it is an intermediary facilitating capital flows from investors to issuers. The bank does not hold the emissions-generating asset, and the capital comes from someone else.

As one point of reference, the GHG Protocol's Corporate Value Chain (Scope 3) Standard defines emissions attribution based on operational control, financial control, or equity share. Facilitated emissions do not meet any of these thresholds: the bank does not control the asset, hold it on balance sheet, or share in its emissions through ownership. From a GHG accounting standpoint, this makes them outside the boundary of financial attribution.

that a definition is not available in the GHG Protocol or the PCAF Standard, the lack of definition offered by ISSB presents ambiguity which may create a risk of inconsistency, double counting and confusion for preparers. This could also impair the comparability of disclosures. To mitigate this risk, we suggest that ISSB considers providing more specific guidance on the application of this requirement, in particular how to determine the scope of the derivative excluded – e.g. products with trading intent or those used for liquidity risk management. The ISSB could also include examples of products which may be considered within the exclusion.

Scope of exclusions for emissions associated with “other financial activities”

The ISSB should provide clarification as soon as possible on any other balances assumed to be out of scope, e.g. trading book balances, Property, Plant and Equipment (PP&E) assets, deferred tax assets (DTAs) or intangibles. Whilst helpful to clarify that derivatives are out of scope, this may raise questions as to other balances assumed to be out of scope which are not stated as such. We understand the ISSB are looking to release guidance on this.

We also suggest the ISSB confirms the current drafting is not an exhaustive list of accepted exclusions. The basis of conclusion paragraph BC8(b) states that the exclusion is applicable to emissions associated with other financial activities “including those related to [...]”, suggesting this is not an exhaustive list of accepted exclusions.

Members suggested other principles-based exclusions for the ISSB to consider under paragraph 29A:

- Undrawn loan commitments and contingent liabilities to reduce the risk of overstatement of financed emissions.
- Less emissions-intensive industries, as determined by an internal transition risk materiality assessment, as material information must not be obscured by other information.
- Lending to banks, financial corporations and sovereigns, to reduce complexity and risk of duplicative reporting.
- Financial instruments held on the balance sheet for trading, liquidity, funding or risk management purposes.
- Strategic decisions such as divestments, to ensure that information is useful to users of general-purpose financial reports in making decisions and material information is not obscured by other information.

- Personal lending, including credit cards, without known use of proceeds, where there are challenges to determine how to attribute emissions

Disclosing information about the magnitude of derivatives and excluded financial activities

We do not support this disclosure requirement. We **recommend that the ISSB remove paragraph 29A(b)(ii) and allow entities to exclude facilitated emissions from their Scope 3 disclosures** without being required to quantify the magnitude of the excluded activity, given the lack of ability to attribute underlying data and the operational complexity involved. Members highlight that this would not provide decision-useful information and undermines the relief provided with the exclusion of emissions associated with facilitated emissions and derivatives.

- Financial institutions generally do not record the notional value of facilitated transactions as part of usual financial reporting processes – this activity is not reflected on the balance sheet, and only the fee revenue is typically captured. As a result, it is extremely difficult to determine and consistently attribute this activity to specific legal entities, especially in global, multi-entity structures.
- Firms prefer to reconcile numbers in their disclosures with their balance-sheets, and avoid repeating information already disclosed in financial reports, or additional numbers and potentially market sensitive information. Overall, members question the usefulness of this information, particularly as it will be interpreted differently across different users.

Use of Global Industry Classification Standard (GICS) for specific financed emissions disclosures

We broadly support introducing flexibility in using the Global Industry Classification Standard (GICS) for financed emissions. However, **we recommend allowing financial institutions to choose the most appropriate classification system** for each part of their organisation. This approach would reduce operational burdens and enhance the decision-usefulness of disclosures.

We note the current approach of the UK Government, consulting on its implementation of the ISSB standards at the time of writing.³ Based on the recommendation from the Technical Advisory Committee (TAC) that entities should be able to use “any appropriate classification standard”, the Exposure Draft for the UK Sustainability Reporting Standards (UK SRS) S2, paragraph B62, proposes the following changes:

Commercial banking

B62 An entity that participates in commercial banking activities shall disclose:

- (a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for each industry by asset class. When disaggregating by:
 - (i) industry — the entity shall use ~~the Global Industry Classification Standard (GICS) 6 digit industry level code for classifying counterparties, reflecting the latest version of the classification system available at the reporting date~~ an internationally recognised industry classification system (for example, a classification system that the entity uses for other regulatory or financial reporting purposes).

Rationale for using the most appropriate classification

We recommend the ISSB to **allow entities to use other widely accepted industry classification system**, not only those required by jurisdictions. This reflects actual market practice and aligns with recommendations from the UK Technical Advisory Committee (TAC).

Under the proposed amendment, a firm would have to use GICS if “any part” of the entity uses it to classify its lending or investments. This will prove problematic when, for example, a large group has to use GICS in one jurisdiction at entity level, and is then compelled to apply it to all entities/at group level through the ISSB requirement. We recommend the ISSB considers a more pragmatic approach for the use of GICS, in line with the aims of the proposed amendments and to enhance decision-usefulness.

Firms should be allowed to **exercise judgment in selecting the most appropriate classification system**, prioritising consistency with other climate-related financial reporting or financial matters to the entity’s investors.

³ See “[Exposure Drafts: UK Sustainability Reporting Standards](#)”, 25 June 2025

Suggested drafting

We strongly support introducing flexibility that allows entities to **exercise judgement in selection of the most appropriate industry classification system, for instance following the example of proposed changes to IFRS S2 in the current approach in the UK SRS (see above)**. This would allow members to emphasise consistency with other climate-related financial reporting and decision-usefulness to investors. However, **if the ISSB retains the concept of a hierarchy, it should be significantly revised** to better reflect how entities currently approach climate and sustainability disclosures.

- **We recommend revising paragraph B62B to remove the phrase "or any part of the entity"**. This would ensure that a subsidiary's use of GICS (or any other system in accordance with the redrafting below) does not trigger a group-wide application requirement, aligning the amendment with the structure of multinational financial institutions.
- Another way of operationalising this is to **incorporate materiality considerations** into the proposed amendment, such that if an immaterial part of the entity uses GICS, the reporting entity can still use an alternative industry classification system.
- We also propose **reordering the hierarchy** in paragraph B62B as follows⁴:

⁴ This reordered hierarchy better reflects how industry classification systems are used across large global groups, tailored to jurisdictional, business, and regulatory needs, rather than imposing a rigid, one-size-fits-all structure. It promotes decision-useful information for investors while reducing operational burdens for financial institutions. It aligns with existing practices, allowing each part of the entity to use the classification system that most closely maps to its regulatory context or internal risk framework. This ensures that disclosures reflect the economic reality of counterparties, which is especially important for Scope 3 emissions, where the quality of disclosures depends heavily on accurate sectoral classification. By contrast, elevating GICS group-wide could force firms to switch away from jurisdictionally required or decision-useful systems, reducing the clarity and comparability of disclosures.

The reordered hierarchy also accounts for the diversity of business models within financial institutions and market practice as a factor for determining the industry classifications to use for each relevant part of the entity. While GICS may be suitable for certain capital markets or asset management activities, it is often less applicable in banking contexts where counterparties span sectors not easily captured by

- a) *an industry-classification system that a relevant part of the entity uses for reporting climate-related financial information to meet a jurisdictional or exchange requirement or to align to market practice if the entity is required by a jurisdictional authority or an exchange on which it is listed to use that industry-classification system to classify its lending or investment activities at the reporting date. If the entity is subject to multiple jurisdictional or exchange requirements and uses more than one industry-classification system for such purposes, the entity shall select one classification system to use for each relevant part of the entity.*
- b) *any other system that provides decision-useful information for general financial reports if (a) is not applicable;*
- c) *a system required for financial reporting if (a) and (b) are not applicable⁵;*
- d) *GICS, if none of the above are applicable.*

- In addition, we would also propose introducing a **separate point in the proposed amendment specific to subsidiaries and/or branches**, which may have their own local reporting requirements in the jurisdictions in which they operate. Subsidiaries and branches should be allowed to use the same industry classification systems as their parents.

Jurisdictional relief from using the GHG Protocol Corporate Standard

We welcome the ISSB's proposed amendments which clarify the jurisdictional relief is available if an entity, whether in whole or in part, is required by a jurisdictional authority or exchange to use a method for measuring greenhouse gas emissions other than the GHG Protocol.

revenue-based classifications. Allowing firms to prioritise jurisdictional or internally consistent systems reduces friction and produces disclosures more aligned with how firms actually evaluate risks and opportunities.

⁵ Members suggested for instance permitting the use of internal classification systems and requiring associated disclosures for transparency; or allowing to use different classification systems for different metrics and parts of the entity to introduce further flexibility.

However, we are concerned that the amendment could open the door to jurisdictional divergence in GHG measurement methodologies, which would undermine consistency and comparability.

- The ISSB should consider **adding guidance or implementation support** that recommends jurisdictions clearly explain how alternative methodologies align with the objectives and principles of IFRS S2.
- We recognise that the ISSB is attempting to accommodate jurisdictions that may wish to require the use of GHG accounting methodologies other than GHG Protocol, and we understand that the ISSB cannot prevent jurisdictions from mandating alternative approaches. That said, we are concerned that this amendment could open the door to significant jurisdictional divergence in GHG measurement methodologies, which would undermine consistency and comparability.
- While we agree it is important to acknowledge jurisdictional flexibility, we note the proliferation of different accounting methodologies across markets would create challenges for users, preparers, and assurance providers, particularly for multinational reporters.

Applicability of the jurisdictional relief for global warming potential (GWP) values

We understand the ISSB's rationale for permitting the use of alternative GWP values where required by a jurisdictional authority or exchange, and recognise that this may be necessary in some cases to align with local requirements.

That said, the use of different GWP time horizons across jurisdictions would risk undermining consistency and comparability in disclosures. The 100-year GWP baseline remains broadly accepted for now, but we acknowledge this could evolve – particularly if policymakers or market participants begin shifting towards shorter horizons, such as the 20-year values.

We encourage the ISSB to monitor developments closely and consider whether future guidance may be needed.

Additional comments

Members suggest the ISSB should also consider additional areas for improving the standards beyond the proposed amendments:

- **Alignment with other emissions reporting standards:** more widely, we suggest the ISSB should clarify how IFRS S2 requirements interact with established methodologies, such as the PCAF Standard, in situations where established methodologies do not provide explicit guidance on method to calculate financed emissions for certain financial products. Such clarifications would be helpful to mitigate the risk of inconsistency in the disclosures.
- **Reporting period:** ISSB IFRS S1 requires sustainability related financial disclosures to cover the same reporting period as the related financial statements. There would be significant undue cost and effort to report financed emissions for the reporting period, and given there is a lag in clients emissions data reported, using current year exposure with lagged emissions data risks undermining the usefulness of data. We suggest the ISSB should amend the requirements so that financed emissions can be reported on the previous reporting period to align with principles of undue cost and effort, and usefulness of data. This also recognises the long time-horizon to change the business models to a low carbon economy.
- **Industry scope:** we recommend that the ISSB recognises the intentional differences in qualifying scope for each industry included in emission reporting. As an example (although this may vary from bank to bank), O&G qualifying for Scope 1, 2 and 3, P&U for Scope 1 and 2, Aviation Scope 1, 2 and 3, etc.
- **Disclosure of data inputs:** ISSB S2 requires disclosure of characteristics of data inputs to enable readers of financial statements to understand how the entity has prioritised the highest quality data available. Given data availability limitations, use of multiple vendor data sources and multiple emissions estimation approaches, there is a risk of undue cost and effort to disclose such information. We suggest the ISSB should consider allowing the disclosure of data quality scores as a simplified way to meet relevant requirements, aligning with the principles of minimising the obscuring of information.

This response was sent on 4 July 2025 to: commentletters@ifrs.org

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