



Mr Emmanuel Faber
Chair
International Sustainability Standards Board
c/o IFRS Foundation
Opernplatz 14
D-60313 Frankfurt am Main

**Sustainability Reporting Technical
Committee**

Phone: +49 (0)30 206412-12

E-Mail: lanfermann@drsc.de

Berlin, #####

Exposure Draft Amendments to Greenhouse Gas Emissions Disclosures

Dear Emmanuel

On behalf of the Deutsches Rechnungslegungs Standards Committee (DRSC) I am writing to comment on the Exposure Draft Amendments to Greenhouse Gas Emissions Disclosures issued for consultation by the ISSB on 28 April 2025 (herein referred to as 'ED').

The DRSC's Sustainability Reporting Technical Committee strongly supports the ISSB's continuing efforts in developing sustainability reporting standards designed to provide a global baseline, helping individual jurisdictions/regions to build their reporting requirements on them. In addition, we believe that addressing implementation issues is a key factor for successful application of the global baseline. Against this background, it is important that the ISSB addresses implementation issues raised via the Transition Implementation Group on IFRS S1 and IFRS S2.

We note that the amendments proposed in the ED are designed to ease the application of IFRS S2 in the context of providing disclosures of Greenhouse Gas Emissions. In light of the current revision of the Greenhouse Gas Protocol and its close link to IFRS S2, we believe the ISSB should enter into dialogue with the relevant Technical Working Groups if it has not already done so. In order to preserve consistency between the provisions in IFRS S2 and the Greenhouse Gas Protocol, we believe that careful coordination between the two sets of guidance or standards is necessary.

As a final remark in advance, we would like to point out to the ISSB that corporate reporting only provides decision-useful information to the users of those reports if the disclosures are made on a consistent basis, i.e., are based on consistent measurement methods. We are concerned that those ISSB proposals relating to the simplification of GHG requirements (see questions 3 and 4) could result in different measurement methods being used within groups to report greenhouse gas emissions. In our view, this would harm the decision-usefulness of the disclosures.

Our detailed responses to the questions raised in the ED are laid down in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact me.

Contact:

Joachimsthaler Str. 34
D-10719 Berlin
Phone: +49 (0)30 206412-0
Fax: +49 (0)30 206412-15
E-Mail: info@drsc.de

Bank Details:

Deutsche Bank Berlin
IBAN-Nr.
DE26 1007 0000 0070 0781 00
BIC (Swift-Code)
DEUTDE33XXX

Register of Associations:

District Court Berlin-Charlottenburg, VR 18526 Nz
President:
Georg Lanfermann
Vice President:
Prof Dr Sven Morich



Yours sincerely

Georg Lanfermann

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APPENDIX: Answers to the questions raised in the ED

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?

DRSC's response

We support the ISSB's explicit clarification of its existing position to 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 IFRS S2. Furthermore, we share the reasoning provided in the Basis for Conclusions to the ED.



However, we are in doubt whether a quantitative disclosure on the magnitude of unrecognised derivatives would constitute useful information for users. The definition of derivatives and how they are to be measured depends on the relevant jurisdictional requirements. The disclosure proposed in the ED could therefore vary significantly across entities, even though the underlying derivative may be the same under equal definition and measurement. Therefore, we propose to refrain from putting such a requirement into the standard. However, we believe that information on how an entity defines derivatives – where applicable, based on jurisdictional requirements – is a decision-useful disclosure. We therefore support the proposal to require an explanation of what the entity treats as derivatives accompanied by the information whether the entity has made use of the exemption to exclude the respective part of its Scope 3 Category 15 greenhouse gas emissions which is associated with derivatives.

For the same reason, we agree with the ISSB's view that the term “derivatives” should not be defined in the standard. For the sake of consistency, the term must be based on the definition used for financial reporting purposes as set out in the respective financial reporting framework to be applied by the entity. This is because the IFRS Sustainability Disclosure Standards (SDS) are intended to be applied independently of the financial reporting framework relevant for the entity reporting under IFRS SDS.

Question 2—Use of the Global Industry Classification Standard in applying specific requirements related to financed emissions

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.

- (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 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?

DRSC's response

We support the ISSB's proposal that the Global Industry Classification Standard (GICS) should not be mandatory for the reporting of financed emissions (Scope 3, Category 15) by industry. We also agree with the ISSB's reasoning, and we further note that in the EU corresponding classifications are often based on or refer to the EU NACE Regulation.



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?

DRSC's response

We do not agree. In our view, quantitative information that is aggregated—such as a group's greenhouse gas emissions—should be generated based on the same measurement method. Otherwise, the aggregated information “Greenhouse gas emissions of the group” can hardly be considered useful for decision-making purposes. Our reasoning is based on the conventions established in financial reporting which should be followed by analogy when reporting on sustainability issues as a matter of principle.

For example, a parent entity applying IFRS 10 Consolidated financial statements will be required to use “uniform accounting policies for like transactions and other events in similar circumstances” when preparing the group financial statements (IFRS 10.19). IFRS 10 further requires the parent entity to carry out adjustments “if a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events” (IFRS 10.B87).

We believe that the same conventions should be followed when preparing sustainability disclosure, and we recommend the ISSB reconsidering the respective proposal of the ED.

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?

DRSC's response

We do not agree. As already explained in our answer to question 3, we think that quantitative information that is aggregated should be generated based on the same measurement method. We therefore believe it is necessary to require applying a consistent set of GWP factors across the entire group for measurement of Greenhouse gas emissions. Here, for further explanations, we refer to our answer to question 3.



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?

DRSC's response

Subject to our reservations, we see no fundamental concerns regarding the earliest possible application, as the proposed amendments relate to reporting policy choices and simplifications.

Question 6— Other comments

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

The ISSB will be aware that a revision of the ESRS is currently underway in the European Union with the support of EFRAG. In the on-going discussions on the revision of ESRS, there is an increasing demand for simplification with regard to the quantification of anticipated financial effects. Emphasising interoperability, it is also being discussed to what extent the ESRS can be more closely aligned with the corresponding provisions of IFRS S2 in future. On the respective requirements of IFRS S2, we note an entity is exempted from quantification in certain circumstances according to IFRS S2.19 and .20 (e.g. in case of high measurement uncertainty). However, we note that the general requirements in IFRS S1.18 on disclosing anticipated financial effects (“use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort” and “use an approach that is commensurate with the skills, capabilities and resources that are available to the entity”) are difficult to put into practice. For this reason, we propose a provision that is linked to the management approach: Anticipated financial effects should be quantified for external reporting if these are quantified for internal management purposes.

On ESRS-ISSB interoperability, we would like to inform the ISSB about an issue that is currently being discussed intensively in our constituency. The ISSB and EFRAG have reached an important milestone with the interoperability guidance of May 2024. As the application of ISSB standards is now becoming mandatory in many jurisdictions, the issue of interoperability is taking on a further (i.e. horizontal) dimension. More precisely, entities in these jurisdictions are often subsidiaries of European parent companies that prepare a consolidated sustainability report in accordance with the ESRS. In such cases, a consolidated sustainability report should exempt the subsidiary from preparing a report in accordance with the ISSB standards, provided that it also includes the disclosures required by the IFRS SDS but not by the ESRS. We acknowledge that such a provision remains in the responsibility of the respective jurisdictions; however, the current Interoperability Guidance does not indicate that this is considered appropriate by EFRAG and the ISSB, at least in terms of content.