

# European Sustainability Reporting Standards

## PREPARERS OUTREACH

4 July 2022

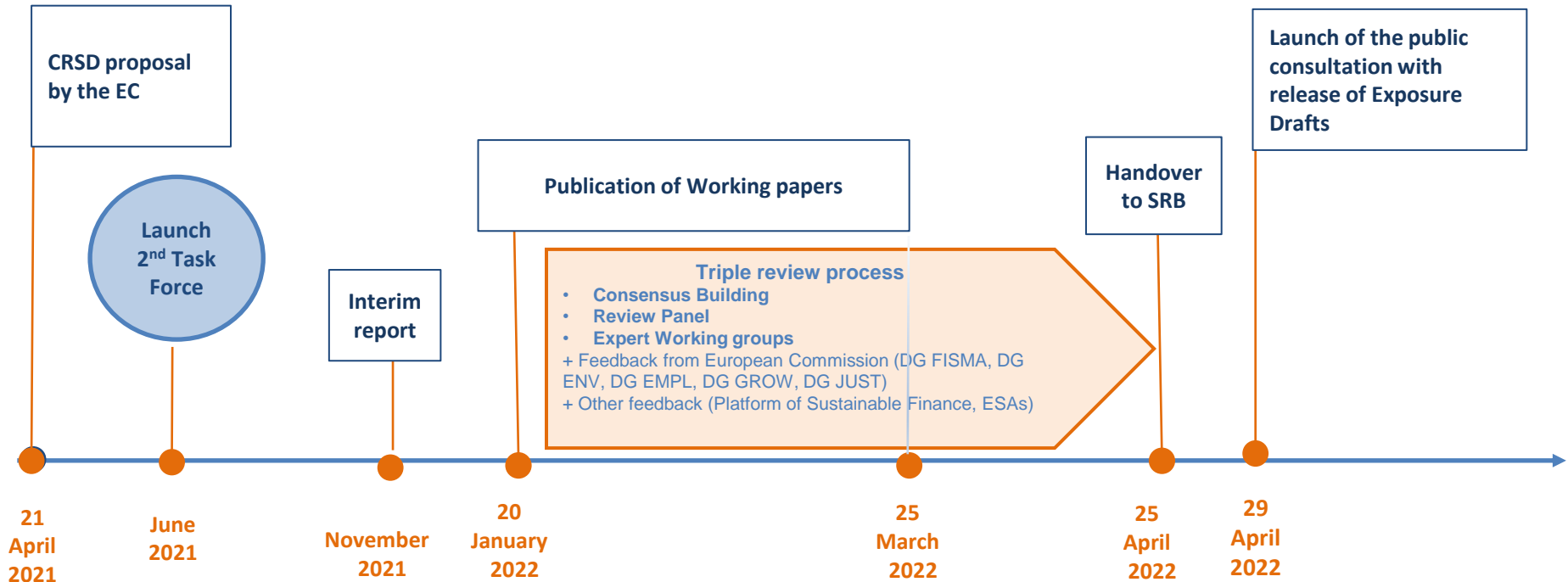


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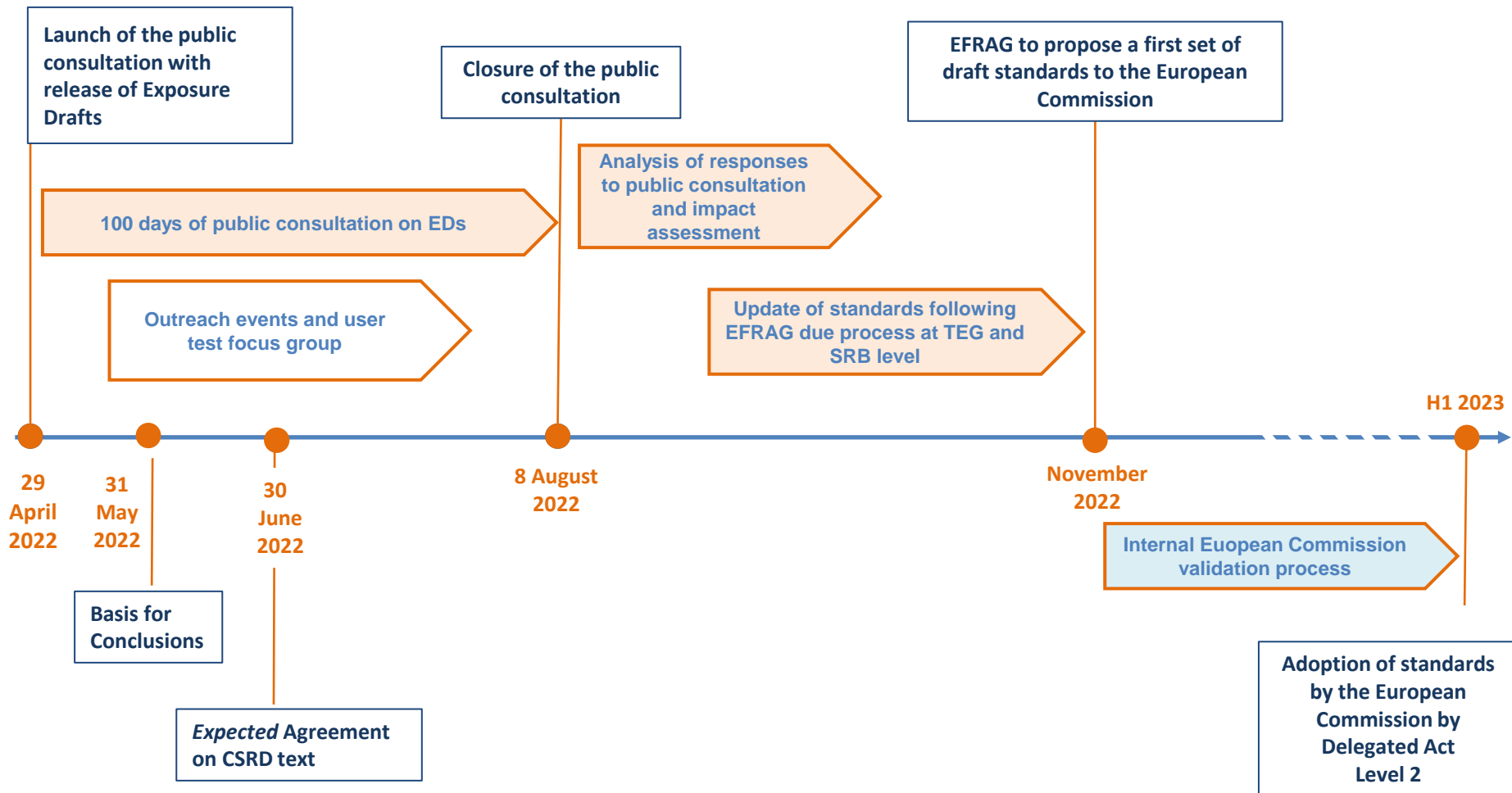
# Drafting exposure drafts for a first set of ESRs: 11 months in “project mode”



**2nd Task-Force re-launched in June 2021** following mission letter from Commissioner McGuinness received on 12 May 2021 in order to start elaborating standards in project mode (PTF):

- 35 members from 13 different Member States
- Supported by Secretariat members (30 full-time equivalent)
- Input from Expert Working Groups (appointed in November 2021)
- Co-construction with GRI, Shift, WICI + dialogue with the IFRS Foundation (TRWG/ISSB) and
- meeting with the SEC

# From EDs to draft standards: 7 months in “institutional mode”



## The seven key features of the EDs

1. They may need to be adjusted to meet the requirements of the final CSRD
2. They take account of existing European law and initiatives
  - SFDR, Taxonomy Art. 8
  - A list of European texts (e.g. GHG allowance Directive, the EMAS regulation and European Commission recommendation on the life cycle environmental performance of products and services, see Basis for Conclusions)
  - Recent European initiatives (e.g. a Corporate Sustainability Due Diligence Directive (CSDDD))
3. They take account of European and international sustainability reporting initiatives
4. The overall architecture of Exposure Drafts is designed to ensure that sustainability information is reported in a carefully articulated manner (see next slide)
5. They address sustainability matters as per Article 19b of the CSRD proposal
6. They are a first step in a journey towards a faithful representation of sustainability performance (SME standard(s) and sector-specific standards in the 2<sup>nd</sup> set)
7. The public consultation will help to finetune relevance and comparability as well as explore ESRS implementation prioritisation / phasing-in options

# A coherent architecture to implement the CSRD provisions

Cross-cutting

T  
O  
P  
I  
C  
A  
L

Overall umbrella

Cross-cutting disclosures


Environment

Social

Governance

EXPOSURE DRAFT

**ESRS 1**  
General principles  
April 2022



Open for comments until 8 August 2022

EXPOSURE DRAFT

**ESRS 2**  
General, strategy, governance and materiality assessment disclosure requirements  
April 2022



Open for comments until 8 August 2022

EXPOSURE DRAFT

**ESRS E1**  
Climate change  
April 2022



Open for comments until 8 August 2022

EXPOSURE DRAFT

**ESRS E2**  
Pollution  
April 2022



Open for comments until 8 August 2022

EXPOSURE DRAFT

**ESRS S1**  
Own workforce  
April 2022



Open for comments until 8 August 2022

EXPOSURE DRAFT

**ESRS S2**  
Workers in the value chain  
April 2022



Open for comments until 8 August 2022

EXPOSURE DRAFT


**ESRS G1**  
Governance, risk management and internal control  
April 2022



Open for comments until 8 August 2022

EXPOSURE DRAFT


**ESRS E3**  
Water and marine resources  
April 2022



Open for comments until 8 August 2022

EXPOSURE DRAFT

**ESRS E4**  
Biodiversity and ecosystems  
April 2022



Open for comments until 8 August 2022

EXPOSURE DRAFT

**ESRS S3**  
Affected communities  
April 2022



Open for comments until 8 August 2022

EXPOSURE DRAFT

**ESRS S4**  
Consumers and end-users  
April 2022



Open for comments until 8 August 2022

EXPOSURE DRAFT


**ESRS G2**  
Business conduct  
April 2022



Open for comments until 8 August 2022

EXPOSURE DRAFT

**ESRS E5**  
Resource use and circular economy  
April 2022



Open for comments until 8 August 2022

## **Main success factors of the ESRS**

- 1. Information quality (in particular: relevance and sector-agnostic comparability)**
- 2. Coherence with EU policy objectives (content and timing)**
- 3. Compatibility with international initiatives**
- 4. Exercise of judgement to foster proportionate implementation**
- 5. Balanced combination of narrative, semi-quantitative and quantitative information**
- 6. Connectivity to ensure seamless standardised corporate reporting**
- 7. Flexibility in presentation (sustainability statements and incorporation by reference)**

## **Main challenges of the ESRS**

- 1. A real challenge for first time reporters**
- 2. Overall depth of required information (to be fine tuned and/or phased-in)**
- 3. Assessment of material IROs and rebuttable presumption**
- 4. Boundary issues**
- 5. Meeting expectations of all stakeholders**
- 6. Avoiding multiple reportings**



## Public consultation as a key element of the standard setting due process

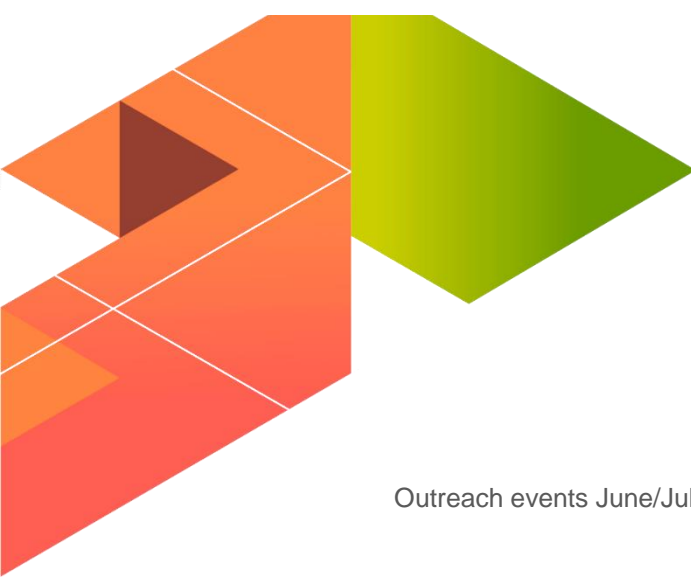
- **Feedback from constituents on three key aspects of the EDs and the survey has followed the same structure :**
  1. The relevance of (i) the proposed architecture, (ii) the implementation of the CSRD principles and (iii) the overall content of each ED
  2. The possible options for prioritising / phasing-in the implementation of the ESRS, and
  3. the adequacy of each disclosure requirement mandated by each ED.
- **Section 3 of the survey on disclosure requirements split as follows:**
  - 3A. Cross Cutting standards
  - 3B. Environmental standards
  - 3C. Social standards
  - 3D. Governance standards
- **Respondents are strongly encouraged to respond to section 1 and 2.**
- **Due to comprehensive nature of section 3, constituents may select the questions and standards to which they provide feedback (no need for complete responses).**

## Public consultation as a key element of the standard setting due process

- **Other information included in the public consultation:**
  - Cover note
  - Appendix I: Navigating the ESRS
  - Appendix II: CSRD requirements mapping
  - Appendix III: SFDR PAI mapping
  - Appendix IV: TCFD recommendations and ESRS reconciliation table
  - Appendix V: IFRS Sustainability standards and ESRS reconciliation table
  - Appendix VI: Acronyms and glossary of terms
- **EC survey tool**
- **Not consulting on second set of draft ESRS (SMEs and and sector specific)**
- **Outreaches during consultation period**



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# Exposure Drafts ESRS 1&2

## CROSS-CUTTING STANDARDS

4 July 2022

Piotr Biernacki, Sustainability Reporting TEG member



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# Agenda

1. Architecture of ESRS system
2. ESRS 1
3. ESRS 2





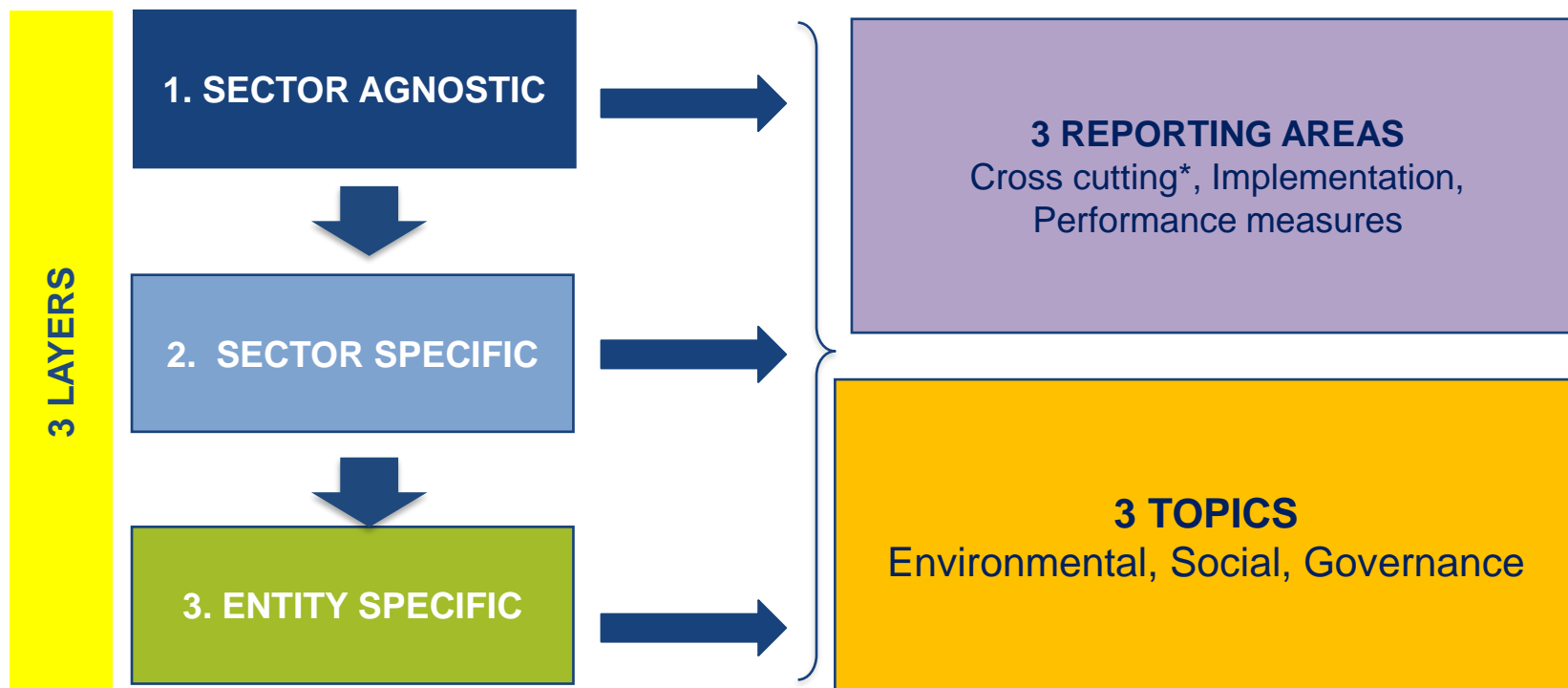
## **ESRS: Overview of the system's architecture**

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# Architecture of ESRS system

## An EU comprehensive sustainability reporting

### The 'rules of three' approach for the architecture of a mandatory sustainability reporting regime

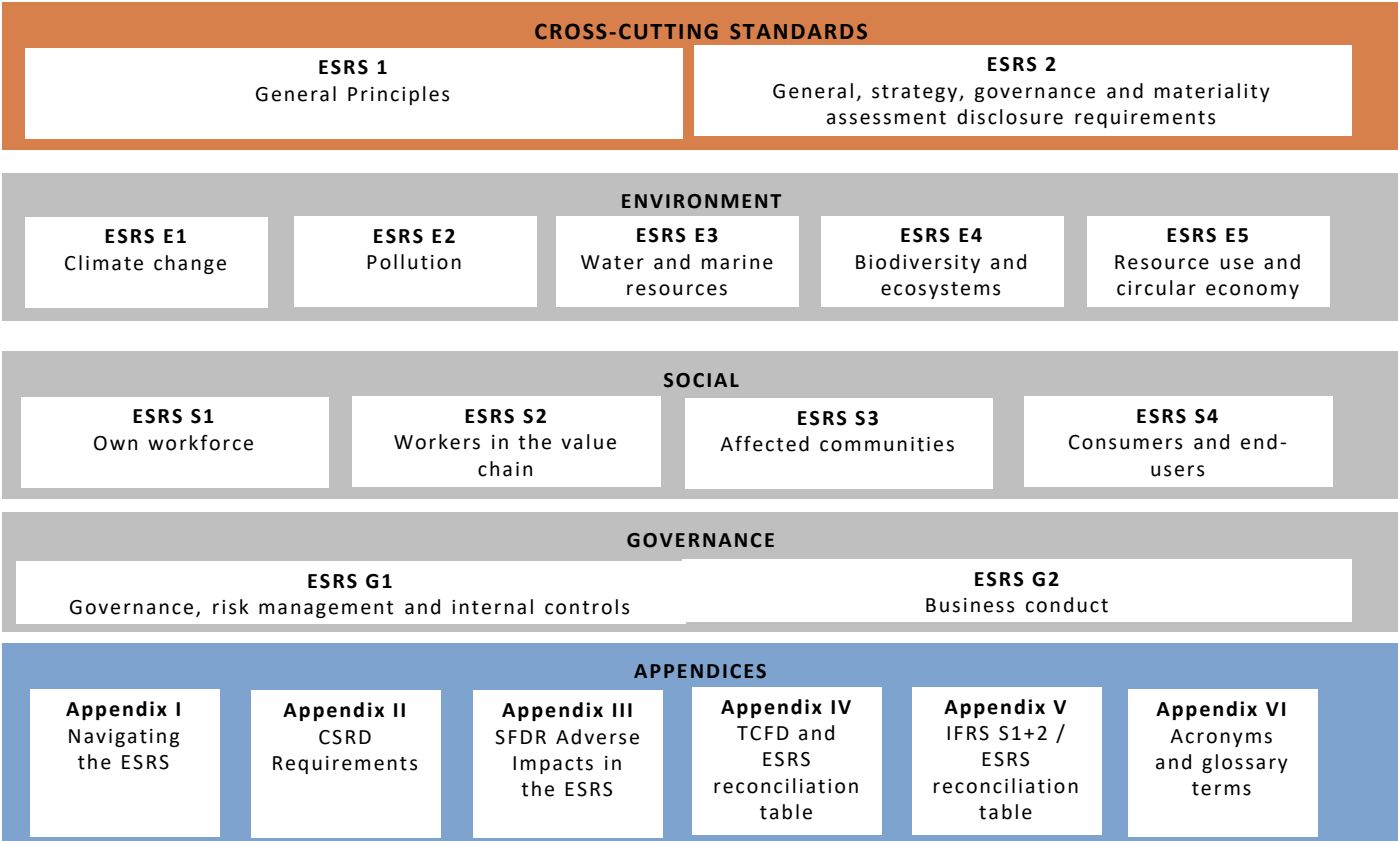


**DOUBLE MATERIALITY : Financial materiality and impact materiality**

(\* ) Cross-cutting standards: General principles and disclosures related to General Requirements, Strategy and Business Model (SBM), Impacts, risks and opportunities (IROSs) and Governance (GOV)



# Project Task-Force achievements – Overview of deliverables to date on the basis of the CSRD architecture



**Set 1 exposure drafts: 13 for public consultation**

All Sector Agnostic

## Cross-cutting standards

- ESRS 1 General principles
- ESRS 2 General, strategy, governance and materiality assessment

## Environment

- ESRS E1 Climate change
- ESRS E2 Pollution
- ESRS E3 Water and marine sources
- ESRS E4 Biodiversity and ecosystems
- ESRS E5 Resource and circular economy

## Social

- ESRS S1 Own workforce
- ESRS S2 Workers in the value chain
- ESRS S3 Affected communities
- ESRS S4 Consumers and end users

## Governance

- ESRS G1 Governance, risk management and internal control
- ESRS G2 Business conduct

Reporting Areas : Cross-cutting

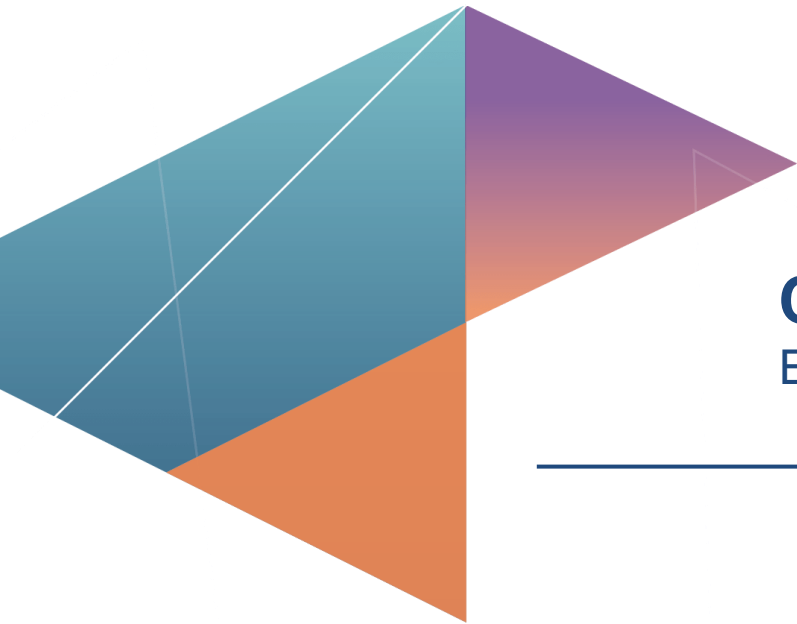
Reporting Areas :  
Implementation and  
Performance measures

3 Reporting topics:  
Environmental, Social,  
Governance

# Compatibility with TCFD and IFRS S1 core contents

The structure and location of ESRS requirements reflects the need to cover the entire set of topics (not only one topic). Cross-cutting contents are dealt with in a single place, while implementation and performance measures are left at topical level





## **Cross-cutting:** ESRS 1 General principles

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# Structure of ESRS 1 General principles



# Chapter 1 Reporting under ESRS: implementation of the “rules of three”

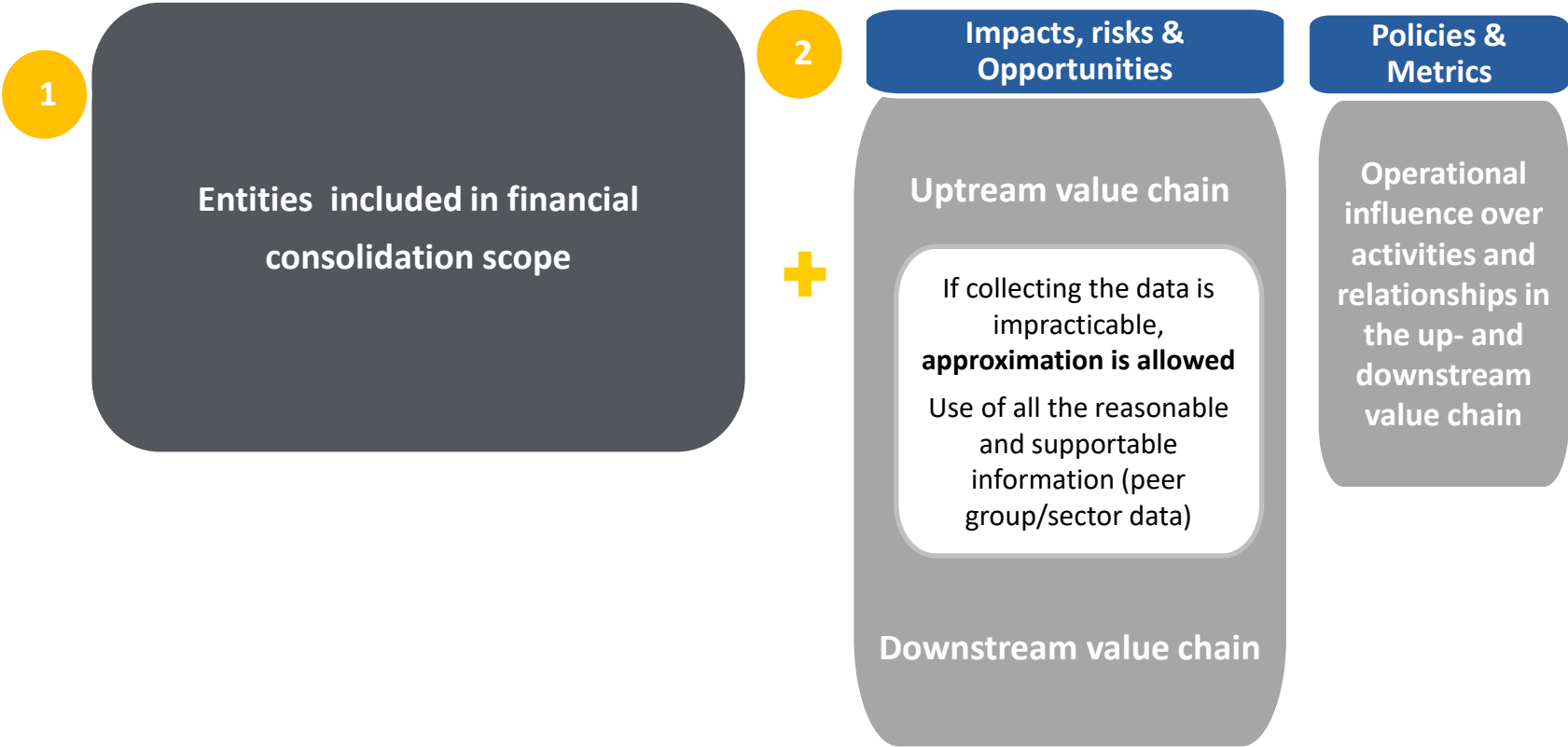
(CSRD information quality) **High degree of comparability** across undertakings: standardized **sector-agnostic (and sector specific) disclosure requirements are mandated** for all undertakings

1	Reporting under European Sustainability Reporting Standards (ESRS)	1.1	Complying with ESRS
		1.2	Standardised and entity-specific disclosures
		1.3	Sector-agnostic and sector-specific standards
		1.4	Relationship between cross-cutting standards and topical standards
		1.5	Developing entity-specific disclosures

## Chapter 2 Applying CSRD concepts: CSRD concepts as « Bedrock » of ESRS

2	Applying CSRD concepts	2.1	Characteristics of information quality
		2.2	Double materiality as the basis for sustainability disclosures
		2.3	Boundaries and value chain
		2.4	Time horizon
		2.5	Due diligence under CSRD

# ESRS 1 – Key concepts: Boundaries and value chain: Consolidation scope plus up- and down-stream



Not all the data need to include value chain information: “Risk-based” approach and link to materiality. The boundary has to be expanded when the integration is necessary to allow a proper understanding of material impacts, risks and opportunities and to produce a set of complete information that meets the qualitative characteristics of information quality.



# Chapter 6 - Structure of sustainability statements: Three presentation options give flexibility. Incorporation by reference to other sections of MR

<p style="font-size: 2em; margin: 0;">6</p> <p style="margin: 0;">Structure of the sustainability statements</p>	<p style="font-size: 1.5em; margin: 0;">6.1</p>	<p style="text-align: center; margin: 0;">Content of the sustainability statements</p>
	<p>Undertaking <u>shall</u> report all the applicable <b>disclosures required by ESRS within identifiable parts of the management report constituting the ‘Sustainability Statements’.</b></p> <p>Undertaking <u>may</u> include in its sustainability statements <b>additional disclosures clearly identified and referenced to local legislation or general accepted framework.</b></p>	
<p style="font-size: 1.5em; margin: 0;">6.2</p>		<p style="text-align: center; margin: 0;">Structure of the sustainability statements</p>
		<p>Options:</p> <ul style="list-style-type: none"> <li>a) <u>Single separately identifiable section</u> of the management report</li> <li>b) <u>Aggregating the disclosures into four separately identifiable parts</u> of the management report: i) general information; ii) environmental information; iii) social information; and iv) governance information</li> <li>c) <u>Aggregating the disclosures required by each ESRS</u> and reporting them as non-separable blocks in identifiable parts of the management report “on a standard-by-standard basis”</li> </ul>

**Par. 135/146 and AG 33 of ESRS 1:** information mandated by ESRS may be incorporated by reference to another section of the MR (if separate, clearly identified as addressing the relevant ESRS disclosure requirement). A list of incorporation by references is required. Incorporation by reference to the financial statements is also allowed.

# ESRS Overview : Sustainability statements – as a second pillar of standardised corporate reporting

FOCUS

## 1. Cross-cutting information

### General provisions

- **ESRS 2** General requirements DRs

### Strategy and business model

- **ESRS 2** Strategy, Business Model DRs
- **Specific topical DR/AG from topical standards**

### Governance and Organisation

- **ESRS 2 – Governance** DRs
- **Specific topical DR/AG from topical standards**

### Impacts, Risks and Opportunities

- **ESRS 2 - Impacts, Risks & Opportunities** DRs
- **Specific topical DR/AG from topical standards**

+ Sustainable Corporate Governance initiative?

## 2. Environmental information

- **PTAPR related DR from ESRS E1 to E5**
- **Performance DR from ESRS E1 to E5**
- **Additional DR from relevant sector specific standards**
- **Potential additional entity specific information\***

Disclosures pursuant to Article 8 of the taxonomy regulation

## 3. Social information

- **PTAPR related DR from ESRS S1 to S4**
- **Performance DR from ESRS S1 to S4**
- **Additional DR from relevant sector specific standards**
- **Potential additional entity specific information\***

## 4. Governance information

- **PTAPR related DR from ESRS G1 to G2**
- **Performance DR from ESRS G1 to G2**
- **Additional DR from relevant sector specific standards**
- **Potential additional entity specific information\***

\*Prepared in compliance with ESRS 1 general provisions

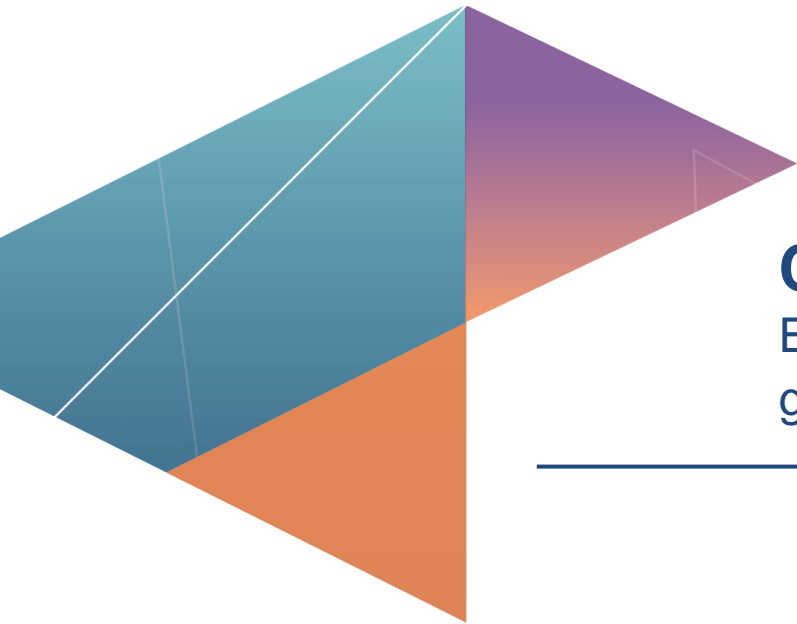
#### NOTE:

**DR:** Disclosure requirement

**AG:** Application Guidance

**PTAPR:** Policies, targets, action plans and resources (Implementation reporting area)

**Performance:** Performance measures



**Cross-cutting:**  
ESRS 2 General, strategy,  
governance and materiality assessment.

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# Overview of ESRS 2

**22** Disclosure requirements

Provides DRs for principles laid out in ESRS 1

Not subject to "rebuttable presumption" = fully mandatory

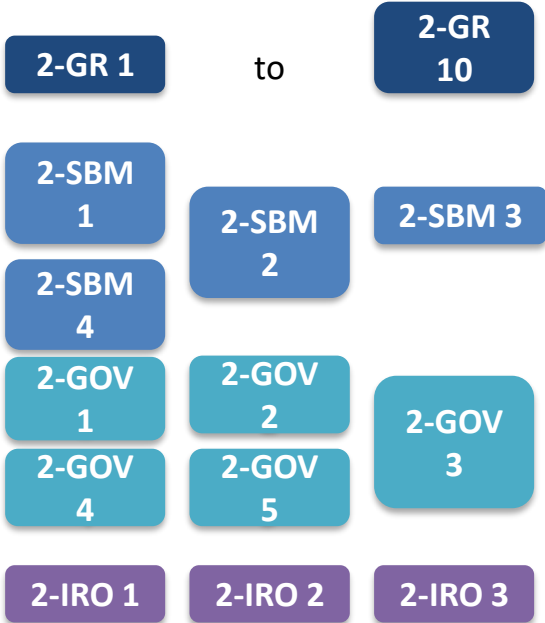
Cross-cutting = provides context for all topical DRs

1st step in sustainability reporting in line with ESRS:  
**MATERIALITY ASSESSMENT**

# Objective and Overview: Objective of ESRS 2

To set out the disclosure requirements of the undertaking’s sustainability reporting that are of a cross-cutting nature. They are those:

- A. of a general nature
- B. on the strategy and business model of the undertaking
- C. on its governance in relation to sustainability
- D. on its materiality assessment of sustainability impacts, risks and opportunities



# Objective and Overview: Disclosure Requirements of ESRS 2 (I/II)

## GENERAL CHARACTERISTICS

DR 2-GR1: **General characteristics** of the sustainability reporting of the undertaking

DR 2-GR2: **Sector(s) of activity**

ISSB SFDR

DR 2-GR3: **Key features** of the value chain

ISSB TCFD

DR 2-GR4: **Key drivers** of the value creation

ISSB

DR 2-GR5: **Using approximations** on the disclosure in relation to boundary and value chain

DR 2-GR6: Disclosing on significant **estimation uncertainty**

ISSB

DR 2-GR7: **Changes** in preparation and presentation

ISSB

DR 2-GR8: Prior period **errors**

ISSB

DR 2-GR9: On other sustainability reporting **pronouncements**

ISSB

DR 2-GR10: General **statement of compliance**

ISSB

## STRATEGY & BUSINESS MODEL

DR 2-SBM1: **Overview** of strategy and business model

ISSB CSRD

DR 2-SBM2: Views, interests and expectations of **stakeholders**

ISSB CSRD

DR 2-SBM3: **Interaction of impacts and the undertaking's Strategy** and business model

ISSB CSRD

DR 2-SBM4: **Interaction of risks and opportunities and the undertaking's strategy** and business model

TCFD CSRD  
ISSB

# Objective and Overview: Disclosure Requirements of ESRS 2 (II/II)

## GOVERNANCE

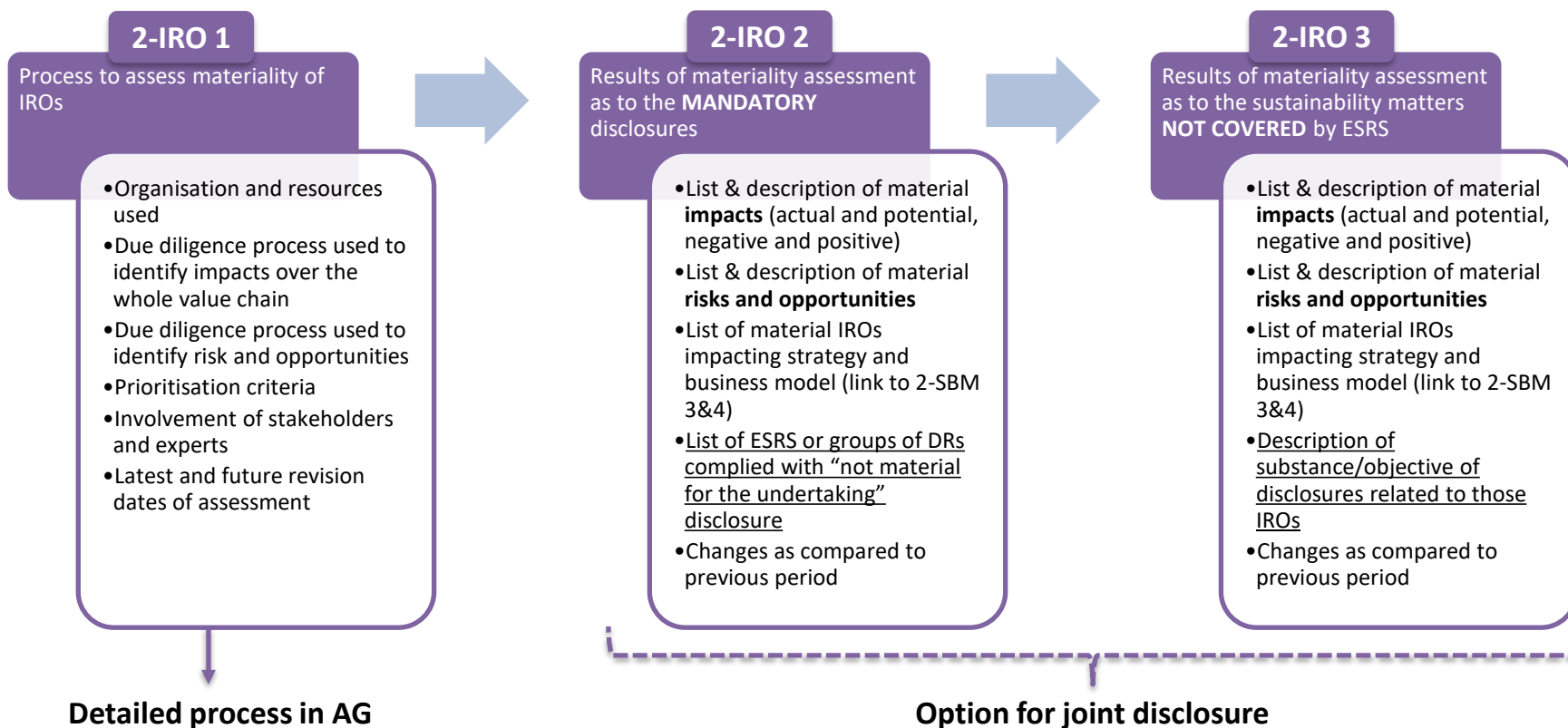
- DR 2-GOV1: **Roles and responsibilities** of the administrative, management and supervisory bodies
  - TCFD
  - ISSB
  - CSRD
- DR 2-GOV2: **Information** of administrative, management and supervisory bodies **about sustainability matters**
  - TCFD
  - ISSB
- DR 2-GOV3: **Sustainability matters addressed** by the undertaking’s administrative, management and supervisory bodies
  - ISSB
- DR 2-GOV4: Integration of sustainability strategies and Performance in **incentive schemes**
  - TCFD
  - ISSB
- DR 2-GOV5: Statement on **due diligence**
  - ISSB
  - SFDR

## IMPACTS, RISKS & OPPORTUNITIES

- DR 2-IRO1: **Description of the processes** to identify material sustainability impacts, risks and opportunities
  - ISSB
  - CSRD
  - TCFD
- DR 2-IRO2: **Outcome of the undertaking’s assessment** of material sustainability impacts, risks and opportunities as identified by reference to and in compliance with **sector-agnostic and sector-specific level ESRS**
  - SFDR
  - ISSB
  - CSRD
  - TCFD
- DR 2-IRO3: **Outcome of the undertaking’s assessment** of material sustainability impacts, risks and opportunities that are not covered by an ESRS (**entity-specific level**)
  - SFDR
  - ISSB
  - CSRD
  - TCFD

## Focus on DR – IRO 1, 2 and 3

DRs related to Materiality assessment impacts, risks and opportunities in ESRS 2





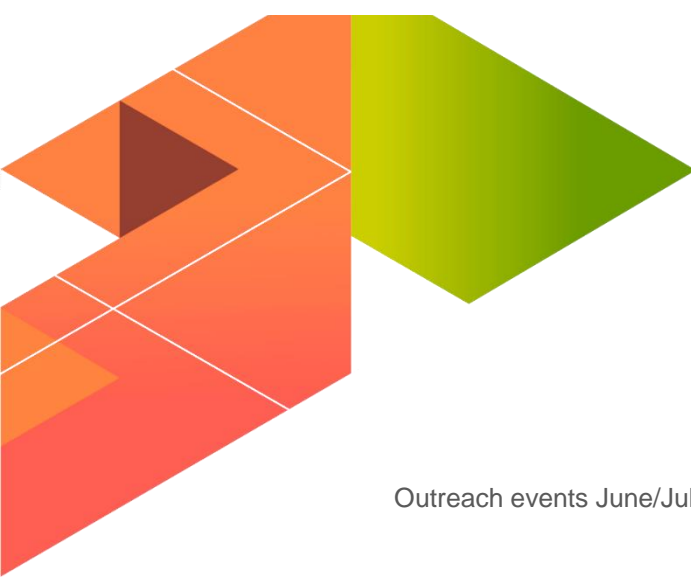


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Q&A



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# Exposure Drafts ESRS Set 1

## PRESENTATION FOR OUTREACH EVENTS ENVIRONMENTAL TOPICS

4 July 2022

Philippe Meunier

Stefan Schnell

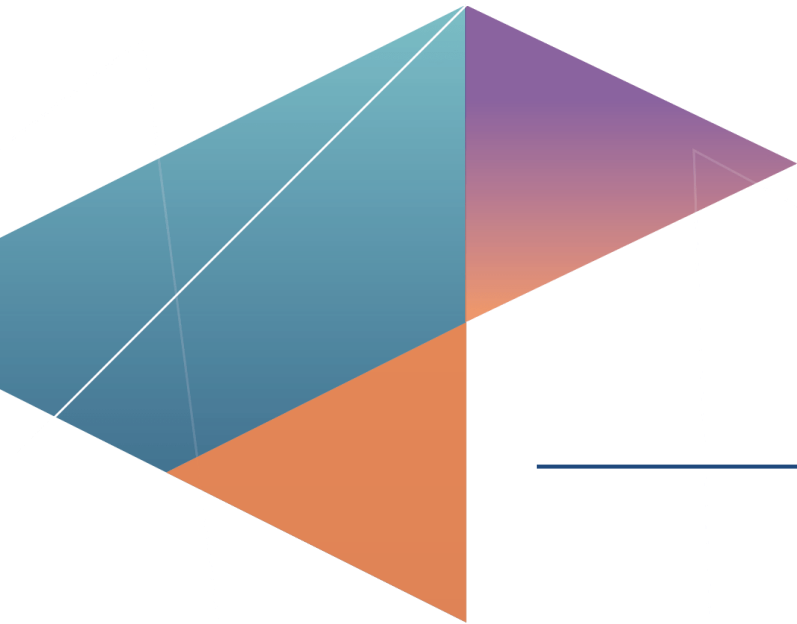


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## **Environment:**

E1 Climate change

E2 Pollution

E3 Water and marine resources

E4 Biodiversity and ecosystems

E5 Resource use and circular economy

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# E1 Climate: Objective

To specify disclosure requirements which will enable users of sustainability reporting to understand:

A. How the undertaking affects climate change in terms of positive and negative material actual or potential impacts

B. The undertaking's past, current and future mitigation efforts in line with the Paris Agreement and limiting global warming to 1.5°C

C. The plans and capacity of the undertaking to adapt its business model(s) and operations in line with the transition to sustainable economy and to contribute to limiting global warming to 1.5°C

D. Any other actions taken and the result of such actions to prevent, mitigate or remediate actual or potential adverse impacts

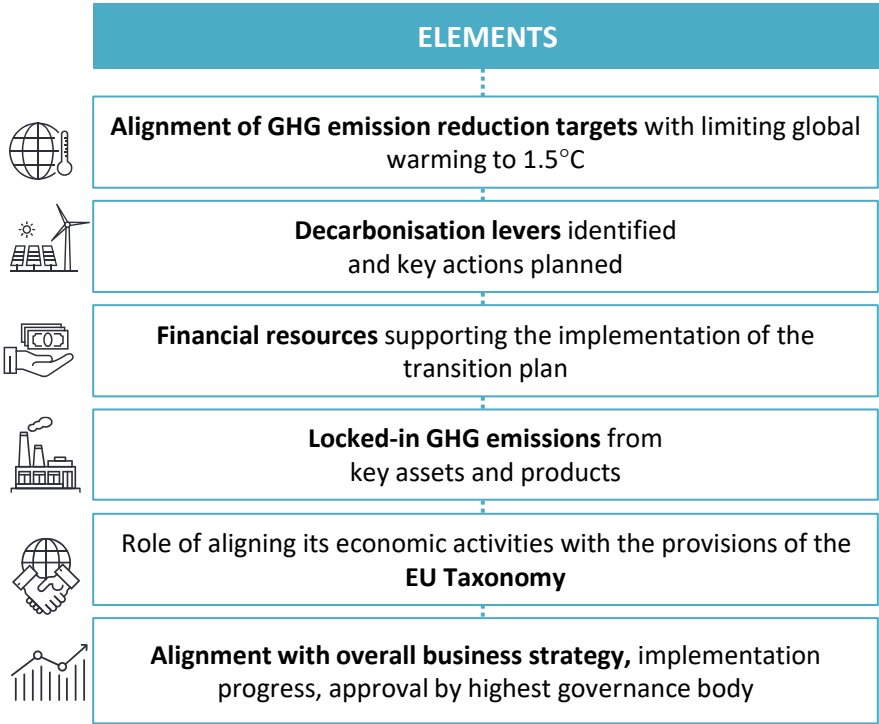
E. The nature, type and extent of the material risks and opportunities related to the undertaking's impacts and dependencies on climate change and how it manages them

F. The effects of climate-related risks and opportunities on the undertaking's development, performance, position over the short, medium and long term and its ability to create enterprise value in the short, medium and long term

# E1 Climate: Content

STRATEGY <small>(complemented by ESRS 2)</small>	IMPLEMENTATION	PERFORMANCE MEASURES
<p>DR E1-1: <b>Transition plan</b> for climate change mitigation <span>CSRD</span> <span>ISSB</span> <span>CSDDD</span> <span>US SEC*</span></p> <p>AG on ESRS 2-SBM4: <b>Resilience</b> of strategy and business model <span>CSRD</span> <span>ISSB</span> <span>US SEC</span></p> <p>AG on ESRS 2-GOV 4: Climate-related <b>remuneration</b> <span>ISSB</span></p> <p>AG on ESRS 2-GOV 4: Internal <b>carbon pricing</b> schemes <span>ISSB</span> <span>US SEC</span></p> <p>AG on ESRS 2-IRO 1 and 2: material climate-related <b>impacts, risks and opportunities</b> <span>CSRD</span> <span>ISSB*</span> <span>US SEC*</span></p> <p><small>*only financial materiality</small></p>	<p>DR E1-2: <b>Policies</b> implemented to manage climate change mitigation and adaptation <span>CSRD</span></p> <p>DR E1-3: Measurable <b>targets</b> for climate change mitigation and adaptation <span>CSRD</span> <span>ISSB</span> <span>US SEC</span></p> <p>DR E1-4: Climate change mitigation and adaptation <b>action plans and resources</b> <span>CSRD*</span> <span>Taxo*</span> <span>ISSB*</span></p> <p><small>* only selected requirements</small></p>	<p><b>Energy</b></p> <p>E1-5: Energy <b>consumption &amp; mix</b> <span>SFDR</span></p> <p>E1-6: Energy <b>intensity</b> per revenue <span>SFDR</span></p> <p><b>GHG emissions / removals</b></p> <p>E1-7: <b>Scope 1</b> GHG emissions <span>SFDR</span> <span>ISSB</span> <span>US SEC</span></p> <p>E1-8: <b>Scope 2</b> GHG emissions <span>SFDR</span> <span>ISSB</span> <span>US SEC</span></p> <p>E1-9: <b>Scope 3</b> GHG emissions <span>SFDR</span> <span>ISSB</span> <span>US SEC</span></p> <p>E1-10: <b>Total</b> GHG emissions</p> <p>E1-11: <b>GHG intensity</b> per net turnover <span>SFDR</span> <span>ISSB</span> <span>US SEC</span></p> <p>E1-12: <b>GHG removals</b> <span>CSRD*</span></p> <p>E1-13: <b>Carbon credits</b> <span>CSRD*</span> <span>ISSB</span> <span>US SEC</span></p> <p>Optional E1-14: <b>Avoided GHG emissions</b> from products and services</p> <p><b>Financial effects</b></p> <p>E1-15: Financial effects from <b>physical risks</b> <span>ISSB</span> <span>US SEC</span></p> <p>E1-16: Financial effects from <b>transition risks</b> <span>ISSB</span> <span>US SEC</span></p> <p>Optional E1-17: <b>Financial opportunities</b> <span>Taxo**</span> <span>ISSB</span> <span>US SEC</span></p> <p><small>* in recital 41 ** indirect link</small></p>

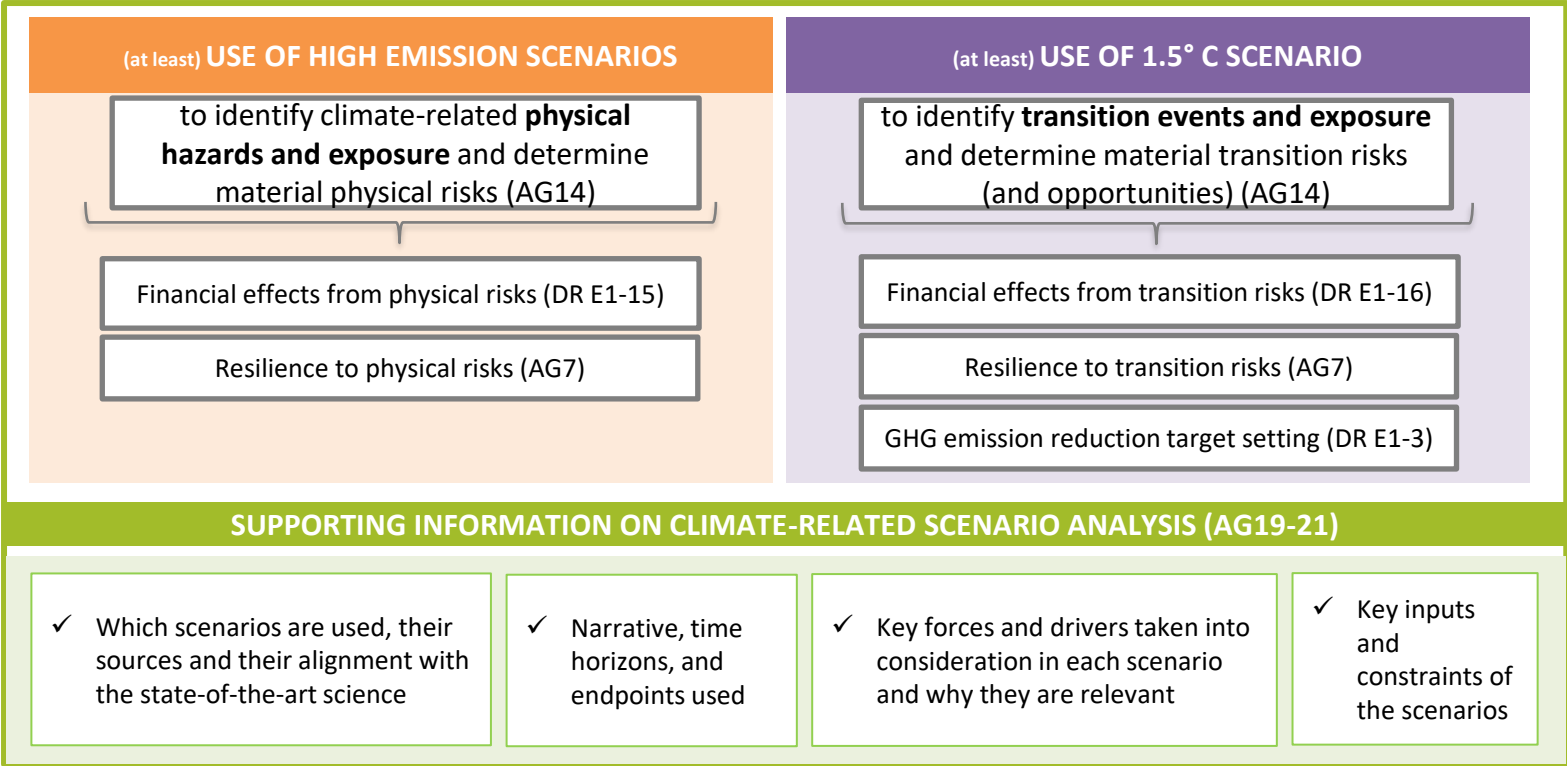
# E1 Climate: Deep dive on DR E1-1 Transition plan for climate change mitigation



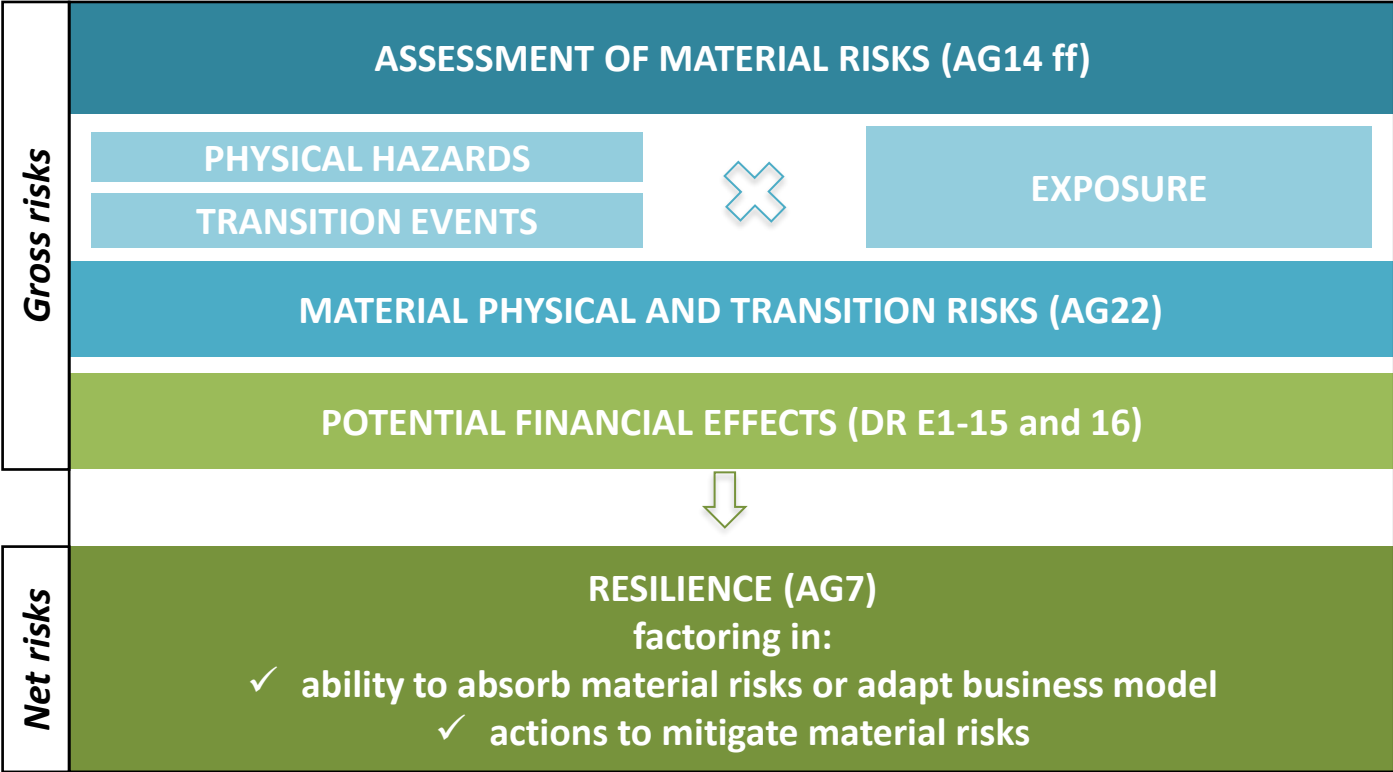
*“...the undertaking is expected to provide a high-level explanation on how it will adjust its strategy and business model to ensure compatibility with the transition to a climate-neutral economy and with limiting of global warming to 1.5°C in line with the Paris Agreement ... and shall, where applicable, refer to and contextualise information presented under other disclosures requirements of this [draft] standard.”*



# E1 Climate: Deep dive on the role of scenario analysis



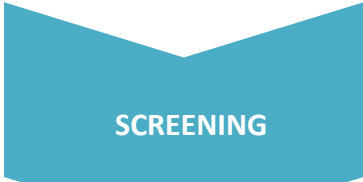
# E1 Climate: Deep dive on the conceptual approach to reporting on climate-related risks



# E1 Climate: Deep dive on DR E1-9 Scope 3 GHG emissions

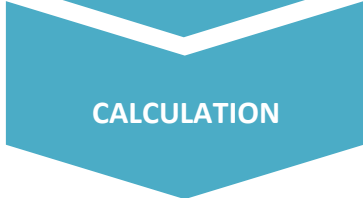
## METHODOLOGY FOR SCOPE 3 GHG EMISSIONS

1



Screen Scope 3 GHG emissions based on the 15 Scope 3 categories from the GHG Protocol to identify significant categories based on magnitude of GHG emissions and other criteria (e.g. based on available screening tools)

2



Calculate or estimate GHG emissions in significant Scope 3 categories  
**Proportionality: update at least every 3 years or in case of major change**



### Scope 3 emissions in significant Scope 3 categories

3



- ✓ Scope 3 GHG emissions from significant categories;
- ✓ % of emissions calculated using primary data;
- ✓ boundaries and calculation methods and tools for each significant Scope 3 category;
- ✓ list of Scope 3 categories included in and excluded from the inventory

**Every year**

## PRESENTATION



Upstream purchasing



Optional: ICT



Downstream sold products



Goods transportation



Travels



Financial investments

## E2 Pollution: Objective

**To specify disclosure requirements which will enable users of the sustainability statements to understand material impacts, actions taken, results of such actions, material risks and opportunities related to pollution.**

- Pollution and prevention, control and reduction
  - of air– emissions into air (both indoor and outdoor)
  - of water (including groundwater)
  - of soil (at production site, outside, through use of undertaking’s products and services)
- Production, use and/or distribution and commercialisation of
  - Substances of concerns (having a chronic effect for human health or the environment or substances which hamper recycling for safe and high quality secondary raw materials)
  - Most harmful substances (listed in the EU Chemicals Strategy for Sustainability)
- Enabling activities in support of prevention, control and elimination of pollution (four remaining environmental objectives of the EU Taxonomy Regulation)

## E3 Water and marine resources: Objective

To specify disclosure requirements to enable users of the sustainability statements to understand material impacts, actions taken, results of such actions, material risks and opportunities related to water and marine resources

### Water

- Undertaking's relationship with water in its upstream and downstream value chain, in terms of dependencies, impacts, risks and opportunities and how it effectively addresses these issues
- Where and how much water is withdrawn, consumed and discharged for the undertaking's activities, products and services
- What are the water-related impacts caused or contributed to by the undertaking
- How the undertaking is exposed to water-related risks (flood risks, water scarcity risks, etc)

### Marine resources

- Undertaking's activities which cause or contribute to impacts either through the use of ocean-based resources, discharges and emissions to the environment which end up in the oceans, or activities located in maritime (naval matters) areas

## E4 Biodiversity and ecosystems: Objective

**To specify disclosure requirements to enable users of the sustainability statements to understand material impacts, actions taken, results of such actions, material risks and opportunities related to biodiversity and ecosystems**

- Undertaking's relationship to terrestrial, freshwater and marine habitats, ecosystems and populations of related fauna and flora species, including diversity within species, between species and of ecosystems and their interrelation with many indigenous and local communities
- 'Biological diversity' covers the variability among living organisms from all sources including, inter alia, terrestrial, freshwater, marine and other aquatic ecosystems and the ecological complexes of which they are part of

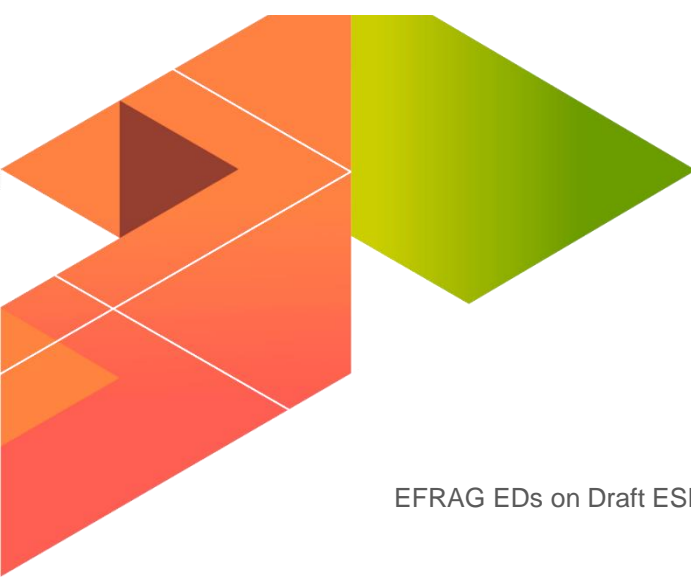
## E5 Resource use and circular economy

**To specify disclosure requirements to enable users of the sustainability statements to understand material impacts, actions taken, results of such actions, material risks and opportunities related to resource use and circular economy**

- Circular economy is a restorative system in which waste and pollution are eliminated and resource use is minimised through systemic design, maintaining and improving the value of products and components and achieving a circular flow of resources, while regenerating natural ecosystems
- The goal is to retain the value of the resources, products and materials by creating a system with innovative business models that allow for renewability, long life optimal use or re-use, refurbishment, remanufacturing, recycling and biodegradation.
- A circular economy is based on three principles, driven by design: eliminate waste and pollution, keep products and materials in use at their highest value and regenerate ecosystems. It is underpinned by a transition to renewable energy.
- Decoupling economic activity from extraction of natural resources can take place through the implementation of circular strategies to prevent natural resources extraction and intensify circular material use.



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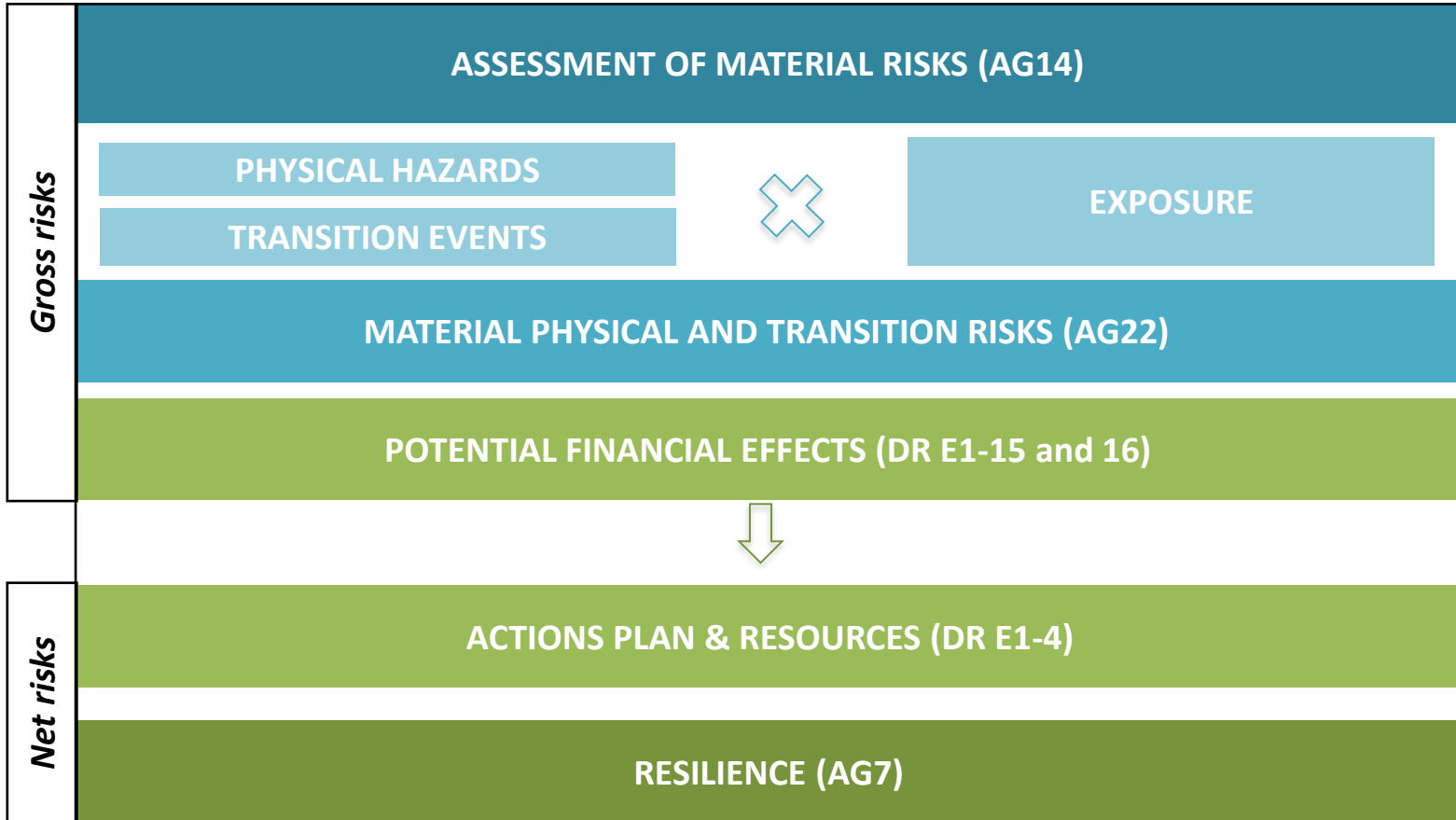




# 6.1 E1 Climate change: Disclosure Requirements Strategy, Governance and materiality assessment

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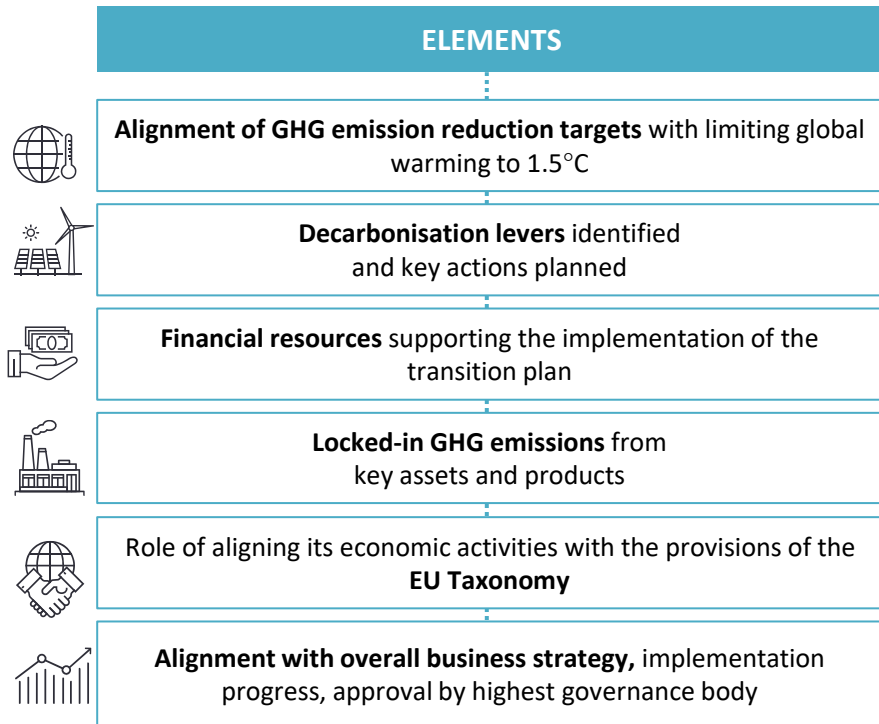
ESRS E1 – Focus on Gross VS Net risks



# 6.1 E1 Climate change: Disclosure Requirements Strategy, Governance and materiality assessment

## ESRS E1 – Focus on Transition Plan

### DR E1-1 Transition plan for climate change mitigation



*“...the undertaking is expected to provide a high-level explanation on how it will adjust its strategy and business model to ensure compatibility with the transition to a climate-neutral economy and with limiting of global warming to 1.5°C in line with the Paris Agreement ... and shall, where applicable, refer to and contextualise information presented under other disclosures requirements of this [draft] standard.”*

## 6.2 E1 Climate change: Disclosure Requirements Policies, targets, action plans and resources

### ESRS E1 Disclosure Requirements (II/IV)

#### 3 Disclosure Requirements related to Policies, targets, action plans and resources

- **DR E1-2 – Policies** implemented to manage climate change mitigation and adaptation

CSRD

- **DR E1-3 – Measurable targets** for climate change mitigation and adaptation

CSRD

ISSB

US SEC

- **DR E1-4 – Climate change mitigation and adaptation action plans and resources**

CSRD\*

ISSB\*

Taxo\*

Information to be published in relation to the Disclosure Principles (ESRS 1):

- Policies to manage GHG emissions, physical and transition risks and opportunities.
- Targets, including for reducing GHG emissions. Additional information to be provided if a net-zero target (including removals) or carbon neutrality (including carbon credits) is claimed.
- Action plan and resources to implement policies and achieve targets.

## 6.3 E1 Climate change: Disclosure Requirements Performance measures

### ESRS E1 Disclosure Requirements) (III/IV)

#### 13 Disclosure Requirements related to performance measures 1/2

##### Energy

**DR E1-5: Energy consumption & mix** SFDR

**DR E1-6: Energy intensity** per revenue SFDR

##### GHG emissions / removals

**DR E1-7: Scope 1** GHG emissions SFDR ISSB US SEC

**DR E1-8: Scope 2** GHG emissions SFDR ISSB US SEC

**DR E1-9: Scope 3** GHG emissions SFDR ISSB US SEC

**DR E1-10: Total** GHG emissions

**DR E1-11: GHG intensity** per net turn SFDR ISSB US SEC

**DR E1-12: GHG removals** CSRD\*

**DR E1-13: Carbon credits** CSRD\* ISSB US SEC

**Optional DR E1-14: Avoided GHG emissions** from products and services

\* in recital 41

- The information on energy consumption makes it possible to assess the company's absolute consumption, its evolution and the share of renewable energy.
- Intensity information meets the requirements of the SFDR.
- Publication of GHG emissions: Scopes 1, 2, 3 and Total. For Scope 3, selection from the 15 most significant GHG Protocol categories.
- Scope 3: calculation updated every 3 years, published annually.
- Distinction between "Removals" = actions to permanently reduce GHGs from the atmosphere within the value chain and "carbon credits" = financing outside the value chain by purchasing credits.
- Optionality of avoided emissions - lack of maturity and consensus on calculation methods.

## 6.3 E1 Climate change: Disclosure Requirements Performance measures

### ESRS E1 Disclosure Requirements (IV/IV)

#### 13 Disclosure Requirements related to performance measures 2/2

##### Financial effects

**DR E1-15:** Financial effects from **physical risks** ISSB US SEC

**DR E1-16:** Financial effects from **transition risks** ISSB US SEC

**DR E1-17:** Financial effect from **opportunities** Taxo\* ISSB US SEC

##### Taxonomy Regulation

\*\* indirect link

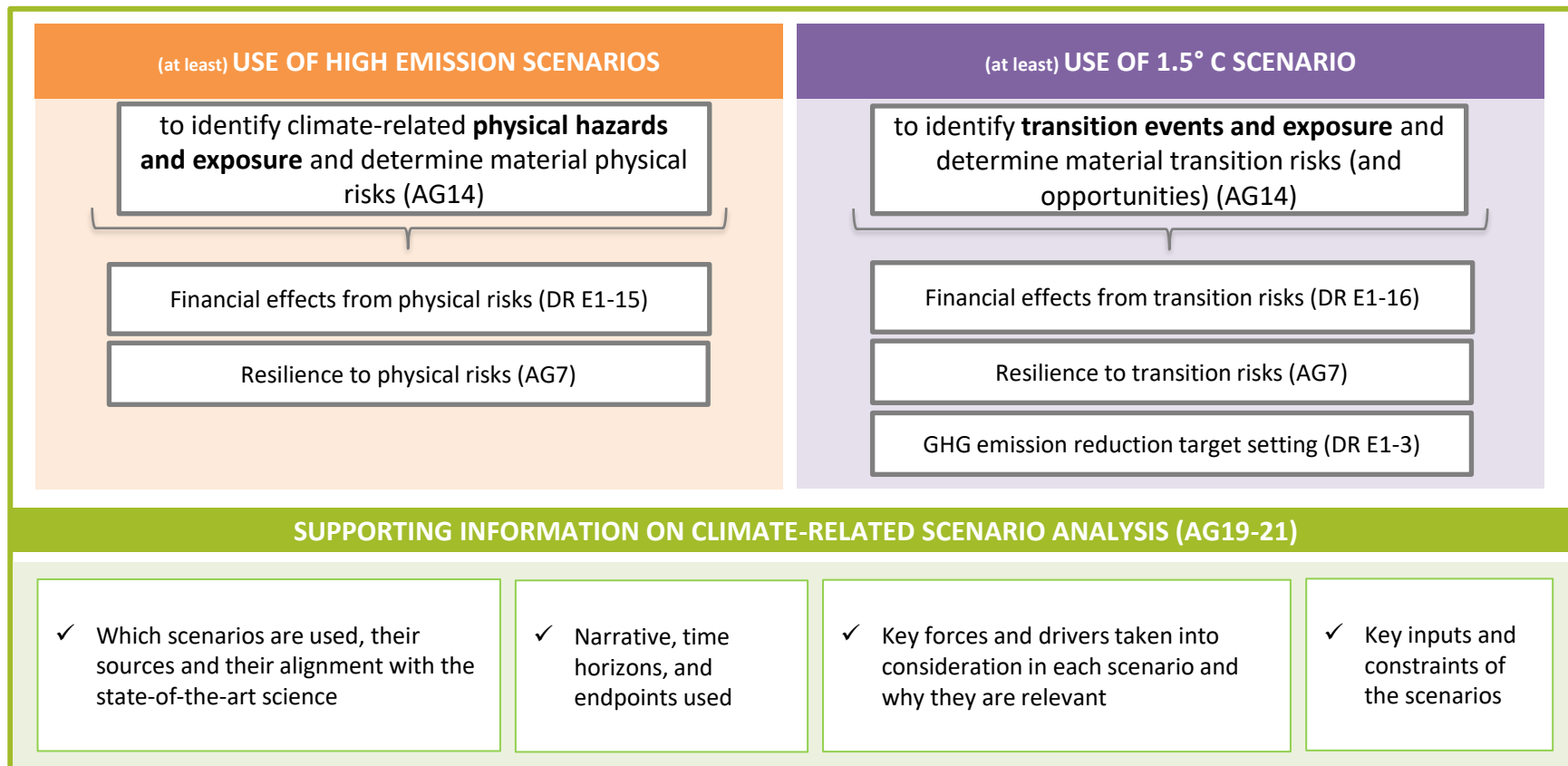
##### Information on potential financial effects:

- Assets exposed to physical/transitional risks (value and %), share covered by adaptation plans.
- Possible future liabilities: ETS regulated installations, emission monetisation, etc.
- Share of turnover exposed to physical / transition risks.
- Financial effects of climate change opportunities (turnover, cost reduction).

## 6.2 E1 Climate change: Disclosure Requirements Policies, targets, action plans and resources

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### ESRS E1 – Focus on Scenario Analysis

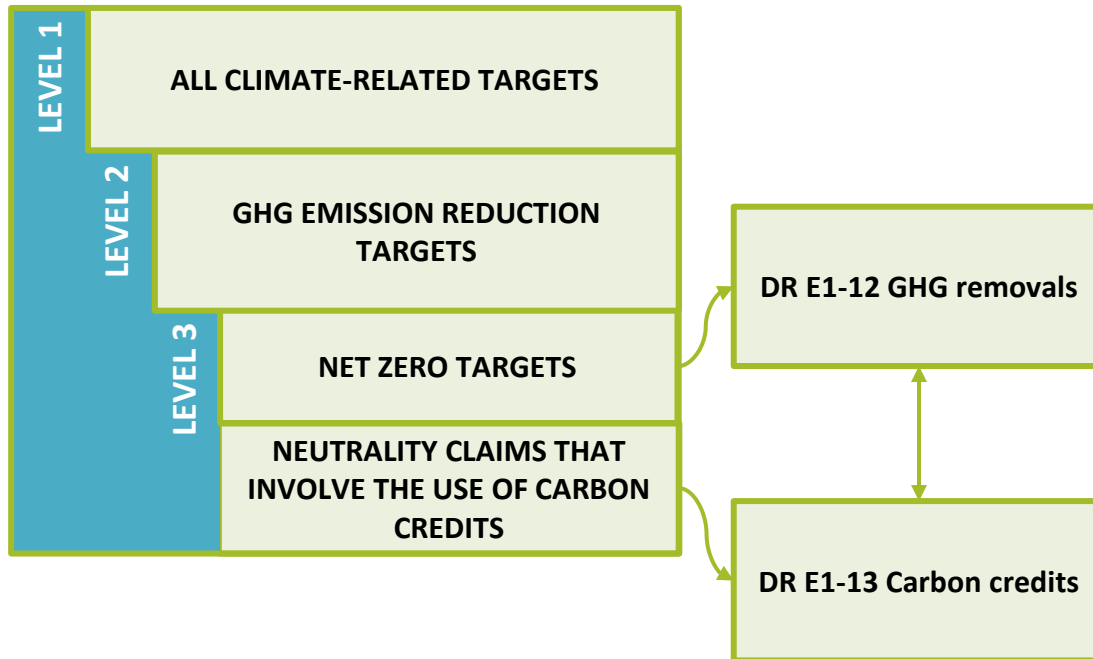


## 6.2 E1 Climate change: Disclosure Requirements Policies, targets, action plans and resources

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### ESRS E1 - Focus on targets

*“The undertaking shall disclose the climate-related targets it has adopted.”*



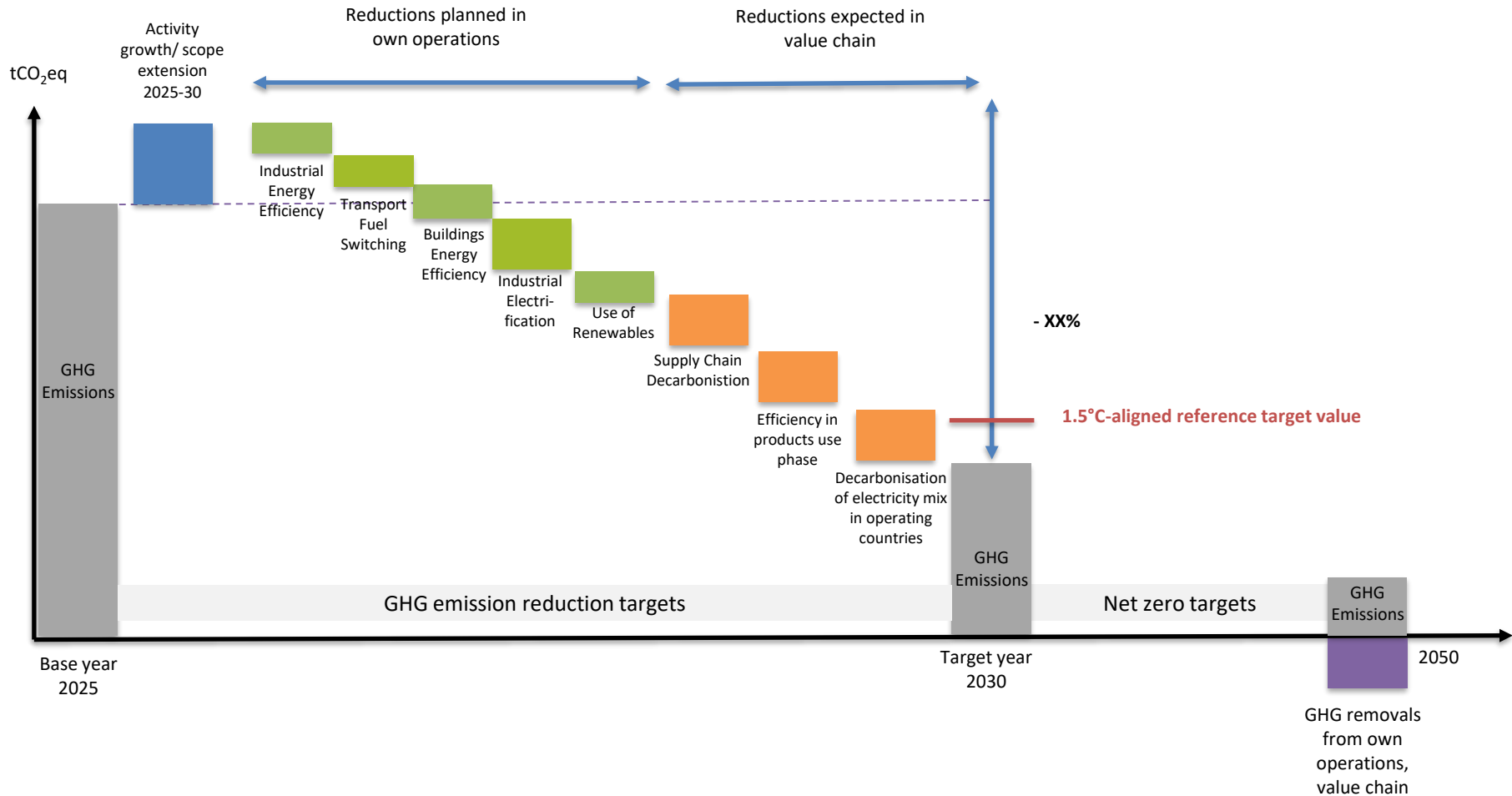
Reporting on GHG emission reduction targets:

- Absolute targets
- Scope 1, 2 and 3
- No netting of emissions to claim target achievement
- From 2025 in 5-year rolling periods
- Science-based?
- Decarbonization levers to achieve targets

# 6.2 E1 Climate change: Disclosure Requirements

## Policies, targets, action plans and resources

### ESRS E1 Graphical pathway of GHG targets





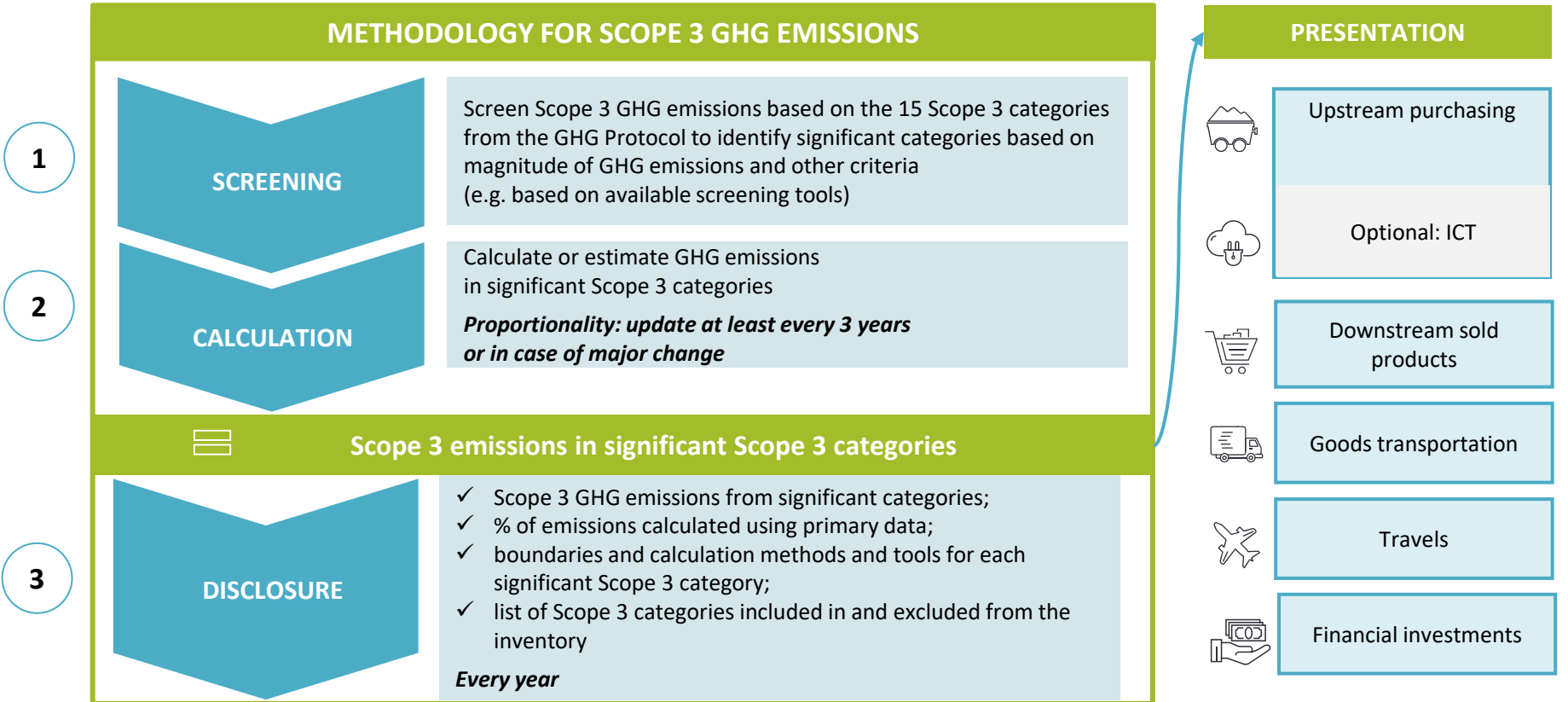
# 6.3 E1 Climate change: Disclosure Requirements

## Performance measures

FOCUS

ESRS E1 – Focus on GHG Scope 3 methodology

### DR E1-9 Scope 3 GHG emissions

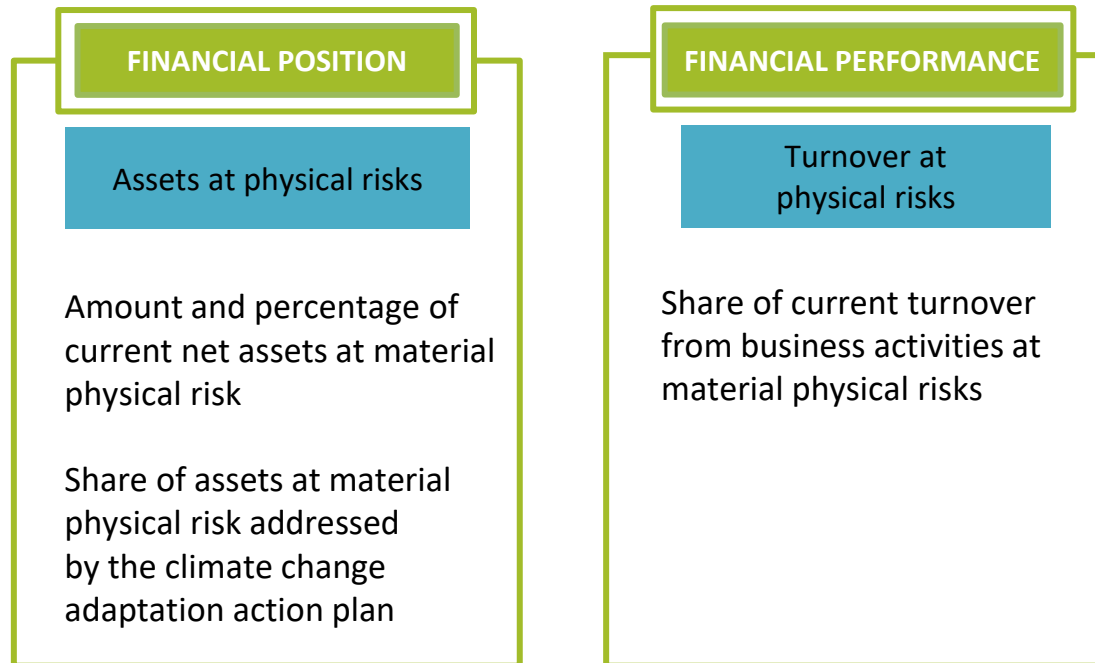


## 6.3 E1 Climate change: Disclosure Requirements Performance measures

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ESRS E1 – Focus on financial effects

### DR E1-15 – Potential financial effects from material physical risks

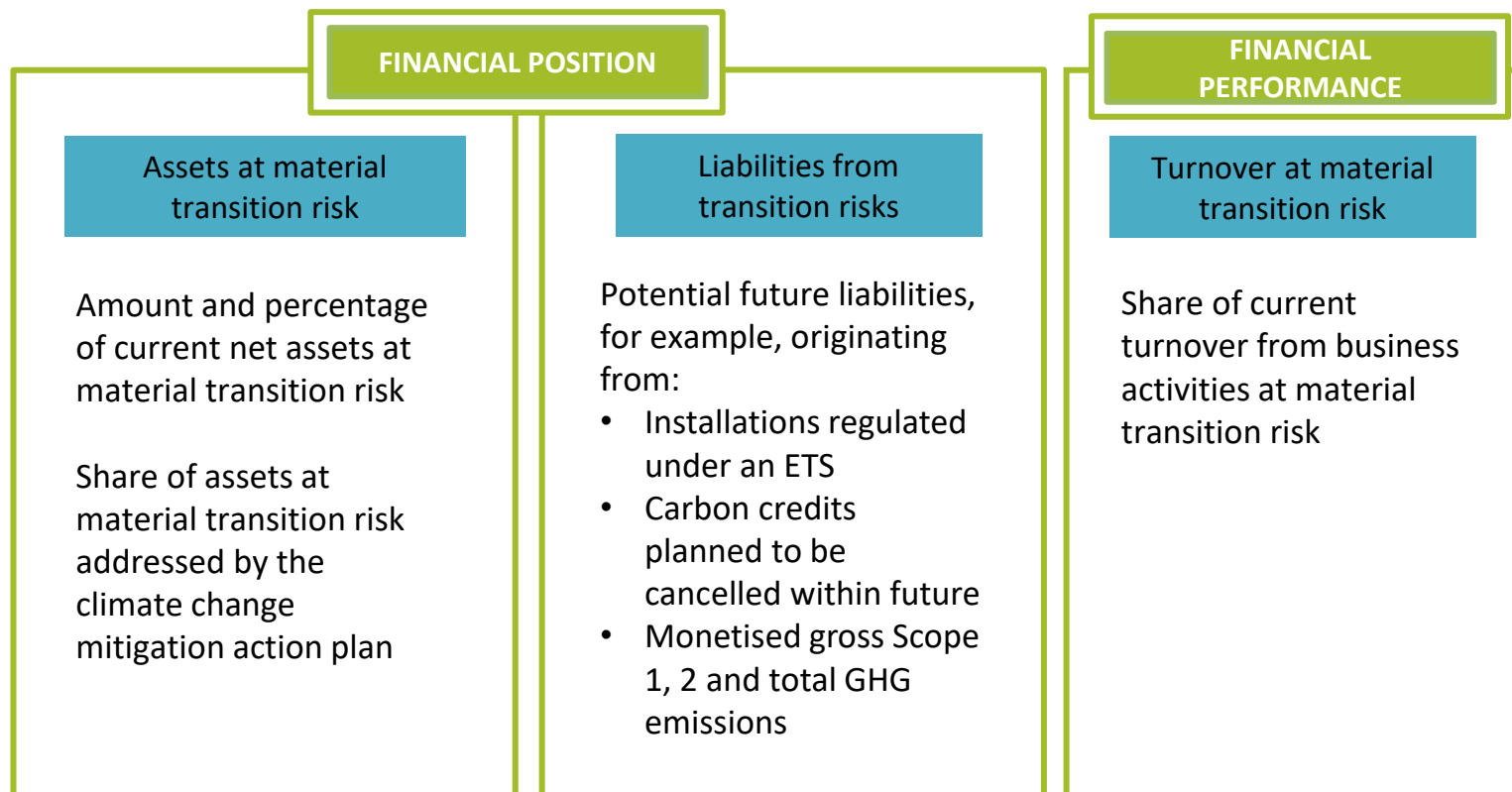


## 6.3 E1 Climate change: Disclosure Requirements Performance measures

FOCUS

ESRS E1 - Focus on financial effects

### DR E1-16 – Potential financial effects from material transition risks



## 6.5 E2 Pollution: Overview (I/III)

### Application guidance related to ESRS 2

- **AG on ESRS 2-SBM 4: Resilience** of strategy and business model
  - TCFD
  - CSRD
  - ZPAP
- **AG on ESRS 2-IRO 1 and 2: material pollution-related impacts, risks and opportunities**
  - TCFD
  - CSRD
  - OEI

- Link to the EU Action Plan initiative "Towards a Zero Pollution for Air, Water and Soil", and value chain consideration.
- Five sub-themes: air pollution, water pollution, soil pollution, substances of concern (including the most harmful substances) and enabling activities to prevent, control and eliminate pollution.
- Link to the definitions of the Chemicals Strategy for Sustainability, the EU REACH Regulation, the E-PRTR (European Pollutant Release and Transfer Register), the Industrial Emissions Directive and the work of the Sustainable Finance Platform.

### 3 Disclosure Requirements related to Policies, targets, action plans and resources

- **DR E2-1** – Policies implemented to prevent and control pollution
  - CSRD
  - Sev. III
- **DR E2-2** – Measurable targets for pollution
  - ZPAP
  - Taxo
  - CSRD
  - IED
  - GRI
- **DR E2-3** – Pollution action plans and resources
  - CSRD
  - GRI
  - IED
  - Taxo

- Policies should pursue an objective (prevention, minimisation, etc.) related to one of the five sub-themes.
- Targets should be expressed in terms of the volume of pollutants concerned, as well as in terms of turnover and raw material costs for substances of concern, and the link should be made with the BAT benchmarks.
- The actions serve the objectives in line with the regulations.

## 6.5 E2 Pollution: Overview (II/III)

### 4 Disclosure Requirements related to performance measurement

- **DR E2-4** – Pollution to air, water and soil SFDR CSRD  
IED GRI
- **DR E2-5** – Substances of concern and most harmful substances CSRD  
Taxo ZPAP
- **DR E2-6** – Pollution-related incidents and deposit impacts and risks, and financial exposure to the undertaking CSRD
- **DR E2-7** – Potential financial effects from pollution-related impacts, risks and opportunities CSRD
- **Taxonomy Regulation**

#### *Pollution to air, water and soil*

- Information on the list and volumes of air, water and soil pollutants generated or used throughout the value chain, as well as the area affected where relevant (including Annex II E-PRTR).
- Link to degree of urbanisation and air quality indicators, as well as to the EU Industrial Emissions Directive and BAT/BREFs where relevant.

#### *Substances of concern*

- Specific information on the share of turnover and raw material costs related to these substances.

#### *Incidents and deposits*

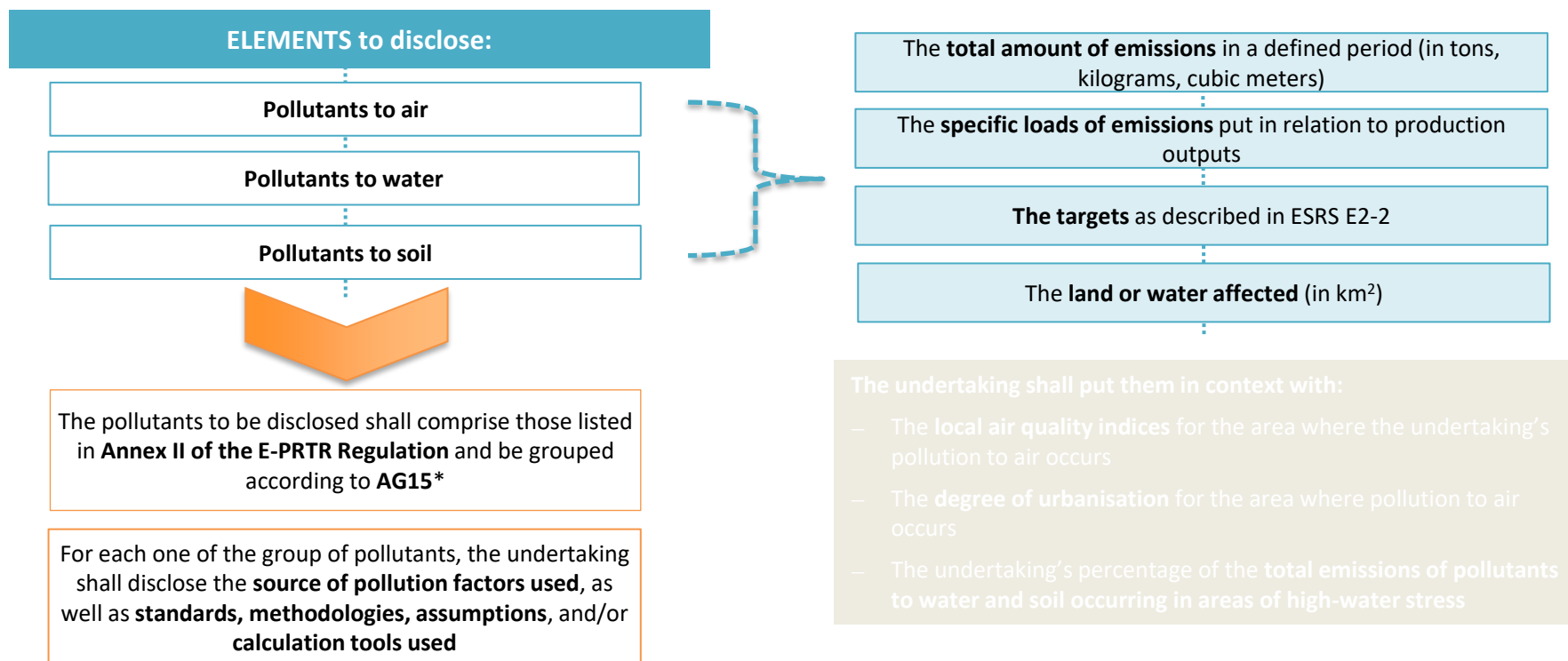
- Information on the main incidents and deposits, their impacts as well as their associated and provisioned costs.

**SFDR**

Link to additional indicators SFDR on Emissions of inorganic pollutants, air pollutants and ozone-depleting substances.

## 6.5 E2 Pollution: Overview (III/III)

*“The undertaking shall disclose the list of pollutants that are generated or used during production processes or that are procured, and that leave its facilities as emissions, as products, or as part of products or services.”*



## 6.7 E3 Water and marine resources: Overview (I/III)

### Application guidance related to ESRS 2

**AG on ESRS 2-IRO 1 and 2:** Water and marine resources-related **impacts, risks and opportunities**

CSRD  
GRI  
CDSB  
CDP W  
CEO W

- Water and marine resources sub-themes, covering the impacts and dependencies of water abstraction, consumption and discharge, including exposure to physical hazards (flooding, water stress, etc.).
- Link with the Water Framework Directive and the EU Marine Strategy Framework Directive.
- Water is a local issue: criticality of geographical sites, hydrological basins.
- Importance of raw materials and consideration of suppliers.
- Marine resources: consideration of deep-sea mineral resources, gravel and seafood.

### 3 Disclosure Requirements related to Policies, targets, action plans and resources

**DR E3-1: Policies** implemented to manage water and marine Resources

CSRD  
SFDR  
GRI  
CDSB

- Value chain and link to EU policies and quantified commitments to reduce water abstraction, consumption and discharge.

**DR E3-2:** Measurable **targets** for water and marine resources

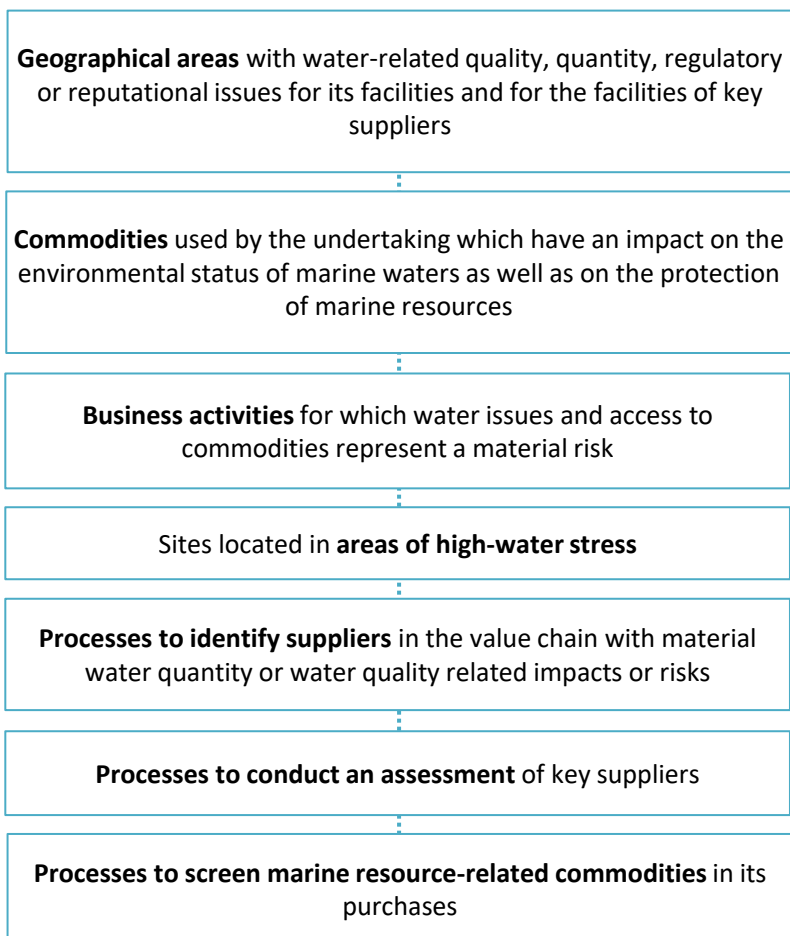
CSRD  
GRI  
CEO W CDP W  
CDSB F Mer

**DR E3-3:** Water and marine **action plans and resources**

CSRD  
CDSB

## 6.7 E3 Water and marine resources: Overview (II/III)

The process of identifying **material IROs** should include:



Outcomes:

A list of geographical areas where water is a material issue for the undertaking's operations and value chain

A list of commodities used by the undertaking which are material to the good environmental status of marine waters as well as for the protection of marine resources

A list of business activities associated to water and marine resources material IROs

**Recommended databases: WWF Water Risk Filter, World Resources Institute's (WRI) Water Risk Atlas tool Aqueduct, annex II to EU Recommendation 2021/2279 on the use of the Environmental Footprint methods.**



## 6.7 E3 Water and marine resources: Overview (III/III)

### 4 Disclosure Requirements related to performance measurement

**DR E3-4:** Water management performance



**DR E3-5:** Water intensity performance



**DR E3-6:** Marine resources-related performance



**DR E3-7:** Potential financial effects from water and marine resources-related impacts, risks and opportunities

**Taxonomy regulation**

#### *Water*

- Volumes of water abstracted, consumed, discharged and link to ESRS E2.
- If relevant, volume of water recycled, reused or stored.
- If relevant, information on intensity.
- Information by geographical area and business segment.

#### *Marine resources*

- Nature and quantity of materials used from marine resources.
- Links with ESRS E5 on waste and plastic use, ESRS E2 on pollutants, ESRS E1 on GHG emissions, ESRS E4 on impacting land use or settlement changes.

SFDR

Link to SFDR principal indicator on Emissions to water and additional indicators on Water usage and recycling, Investments in companies without water management policies and Exposure to areas of high-water stress.

## 6.9 E4 Biodiversity and ecosystems: Overview (I/III)

### 1 Disclosure Requirement related to Strategy, Governance and materiality assessment

- **DR E4-1** – Transition plan in line with the targets of no net loss by 2030, net gain from 2030 and full recovery by 2050

TNFD

- Information on the compatibility of the business model with the EU Biodiversity Strategy 2030 and the Post-2020 Global Biodiversity Framework.
- Identification of biodiversity loss levers (threatened species, protected areas and key areas) in the value chain and remediation actions (avoid, minimise, restore, compensate) on the main resources/dependencies and assets concerned.

### Application guidance related to ESRS 2

- **AG on ESRS 2-SBM 4: Resilience** of strategy and business model

CSRD

TNFD

- **AG on ESRS 2-IRO 1 and 2: Biodiversity and ecosystems - related impacts, risks and opportunities**

CSRD

SFDR

TNFD

**Resilience** : advocating the use of scenarios (e.g. IPBES, ENCORE, etc.).

**Materiality assessment** :

- Advocacy of databases, assessment by geographical location and by commodity, consideration of threatened species, protected areas and key zones.
- Distinction between physical, transition and systemic risks, as well as opportunities in relation to TNFD and CDSB work.
- Presence of activity in biodiversity hotspots.

## 6.9 E4 Biodiversity and ecosystems: Overview (II/III)

### 3 Disclosure Requirements related to Policies, targets, action plans and resources

- **DR E4-2 – Policies** implemented to manage biodiversity and ecosystems **SFDR**
- **DR E4-3** – Measurable targets for biodiversity and ecosystems
- **DR E4-4** – Biodiversity and ecosystems action plans and resources

- Information in relation to the transition plan, as well as the hierarchy of levers: avoid, minimise, restore, compensate, and mitigate.
- Key role of the value chain, traceability of raw materials and suppliers, and importance of social issues of IROs including in relation to the use of genetic resources and interaction with local communities.

### 6 Disclosure Requirements related to performance measurement

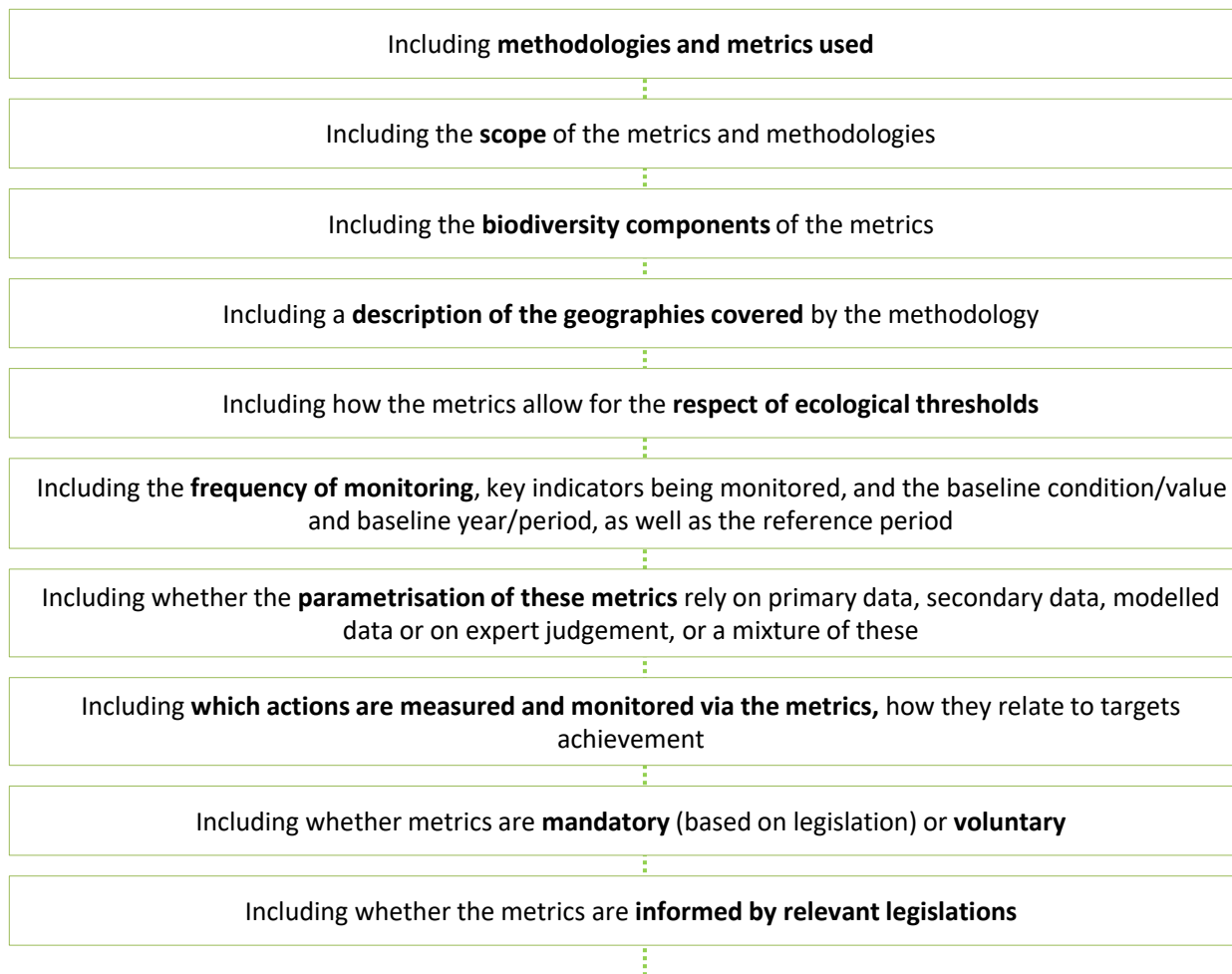
- DR E4-5** – Pressure metrics
- DR E4-6** – Impact metrics
- DR E4-7** – Response metrics
- DR E4-8** – Biodiversity-friendly consumption and production metrics
- DR E4-9** – Biodiversity offsets
- DR E4-10** – Potential financial effects from biodiversity-related impacts, risks and opportunities
- Taxonomy Regulation**

- Very basic indicators, in line with ongoing work at international level and the lack of agreed indicators, description of characteristics that indicators should have.

**SFDR**

Link to SFDR principal indicator on Activities negatively affecting biodiversity-sensitive areas and additional indicators on Land degradation, desertification, soil sealing, Investments in companies without sustainable land/agriculture practices, Investments in companies without sustainable oceans / seas practices, Natural species and protected areas and Deforestation.

## 6.9 E4 Biodiversity and ecosystems: Overview (III/III)



## 6.11 E5 Resource use and circular economy: Overview (I/II)

### Application guidance related to ESRS 2

- **AG on ESRS 2 SBM 3 and SBM 4** on the integration of resource use and circular economy in the business model
- **AG on ESRS 2-IRO 1 and 2:** on impacts, risks and opportunities

- Link with the European plan on the circular economy.
- Integration of **circular economy principles** in the business model: **elimination of waste and pollution**, circularity of products, **regeneration of nature**, decoupling of economic activity from natural resource extraction, **products and materials maintained at their highest value**.
- Materiality assessment in relation to the **five sub-themes described** in E5-4 to E5-8 in relation to the scenarios of remaining in a linear economy versus making a transition to a circular economy.

### 3 Disclosure Requirements related to Policies, targets, action plans and resources

- **DR E5-1 – Policies** implemented to manage resource use and circular economy
- **DR E5-2** – Measurable **targets** for resource use and circular economy
- **DR E5-3** – Resource use and circular economy **action plans**

- Policies to decouple activity and use of non-renewable resources / regenerate renewable resources and ecosystems.
- Action plans related to the sub-themes and the three principles of the circular economy.

## 6.11 E5 Resource use and circular economy: Overview (II/II)

### 6 Disclosure Requirements related to performance measurement

- **DR E5-4** – Resource inflows
- **DR E5-5** – Resource outflows
- **DR E5-6** – Waste SFDR
- **DR E5-7** – Resource use optimisation
- **DR E5-8** – Circularity support
  
- **DR E5-9** – Financial effects from resource use and circular-economy-related impacts, risks and opportunities
- **Taxonomy Regulation**

SFDR

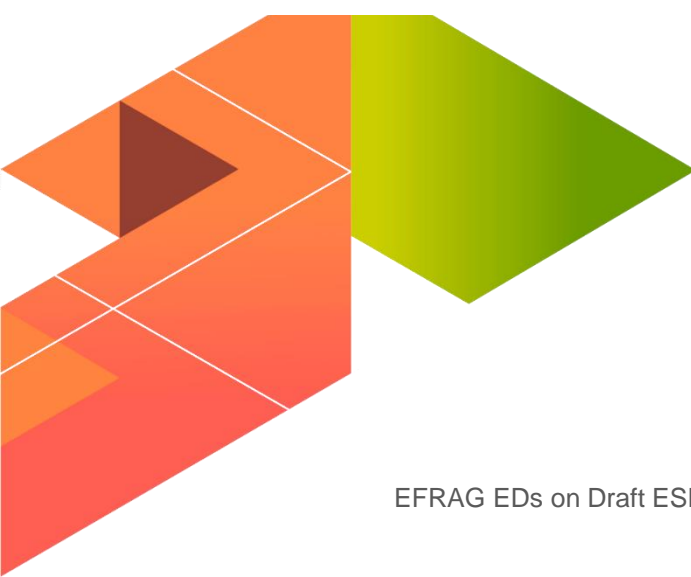
Link to SFDR principal indicator on Hazardous waste and radioactive waste ratio and additional indicator on Non-recycled waste ratio.

Information on the **five sub-themes**:

- quantitative (absolute value et percentage) et qualitative.
- **Resource Inflows**: information on the materials used (renewable, reused, recycled).
- **Resource Outflows**: information on the weight and percentage of products, materials and packaging intentionally created to contribute to the circular economy, i.e. sustainability, reusability, reparability, disassembly, recycling, etc.
- **Waste**: details of hazardous/non-hazardous waste and waste destination.
- **Resource use optimisation**: share of turnover for products and services that optimise the use of resources and promote circular business models.
- **Circularity support**: coordinated actions and partnerships in the value chain.



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