

Exposure Draft ESRS E1 – Climate change

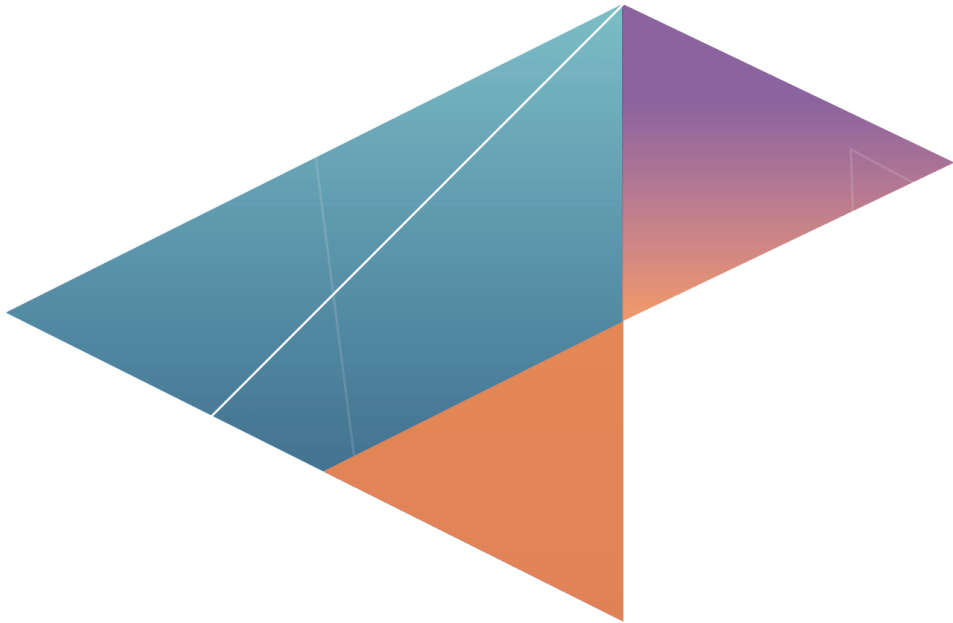
28 April, 2022



EFRAG

European Financial Reporting Advisory Group





Agenda

1. Objective of the [draft] standard and overview
2. Deep dive on selected Disclosure Requirements
3. ESRS E1, IFRS S2 and SEC rule
4. Questions

Objective and Overview

Objective of ESRS E1

Specify Disclosure Requirements (DR) 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

Objective and Overview

Content of ESRS E1

STRATEGY (complemented by ESRS 2)

DR E1-1: **Transition plan** for climate change mitigation

CSRD CSDDD ISSB US SEC*

AG on ESRS 2-SBM4: **Resilience** of strategy and business model

CSRD ISSB US SEC

AG on ESRS 2-GOV 4: Climate-related **remuneration**

ISSB

AG on ESRS 2-GOV 4: Internal **carbon pricing** schemes

ISSB US SEC

AG on ESRS 2-IRO 1 and 2: material climate-related **impacts, risks and opportunities**

CSRD ISSB* US SEC*

*only financial materiality

IMPLEMENTATION

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*

* only selected requirements

PERFORMANCE MEASURES

Energy

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

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

GHG emissions / removals

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

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

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

E1-10: **Total** GHG emissions

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

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

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

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

Financial effects

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

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

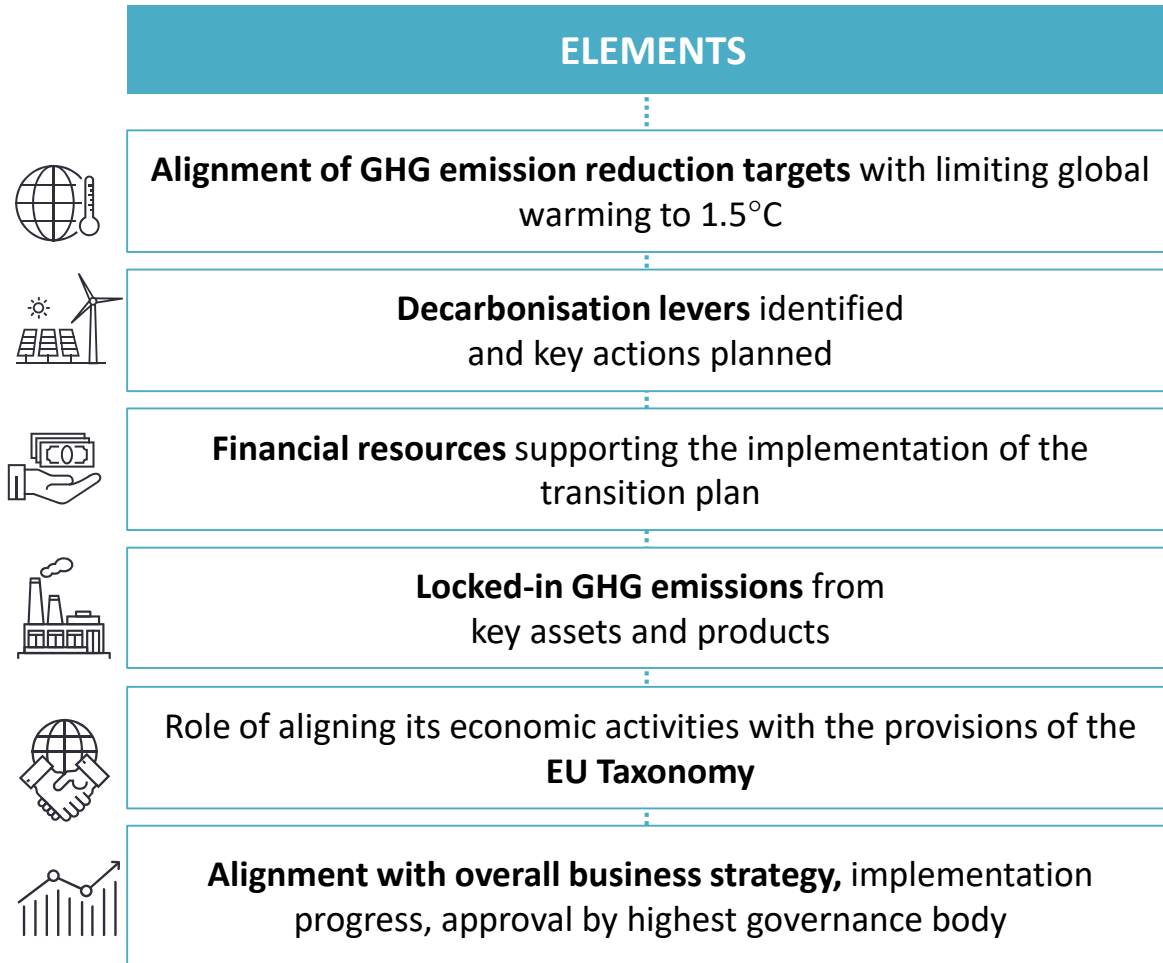
Optional E1-17: Financial **opportunities** Taxo** ISSB US SEC

* in recital 41

** indirect link

Deep dive on selected Disclosure Requirements

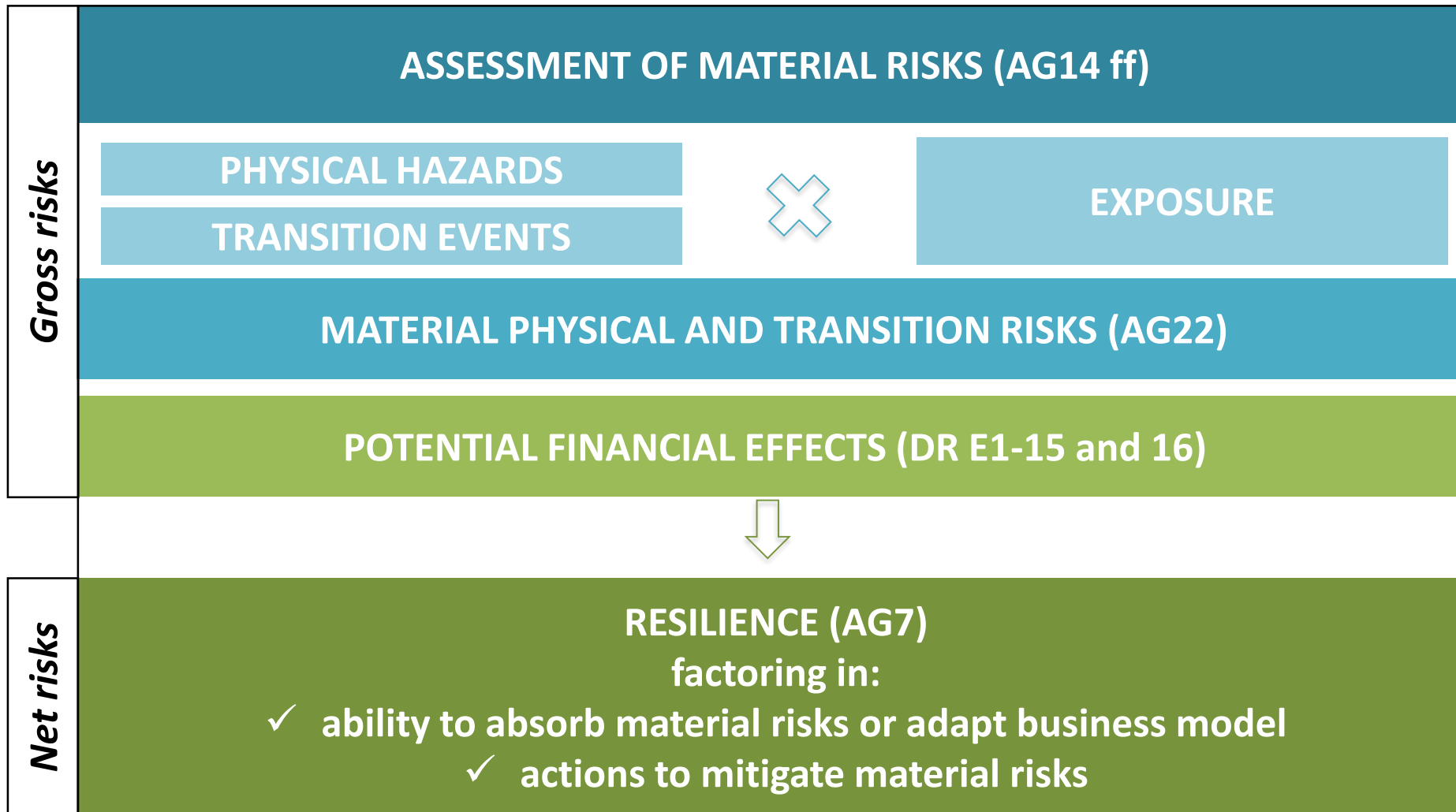
DR E1-1 Transition plan for climate change mitigation



“...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.”

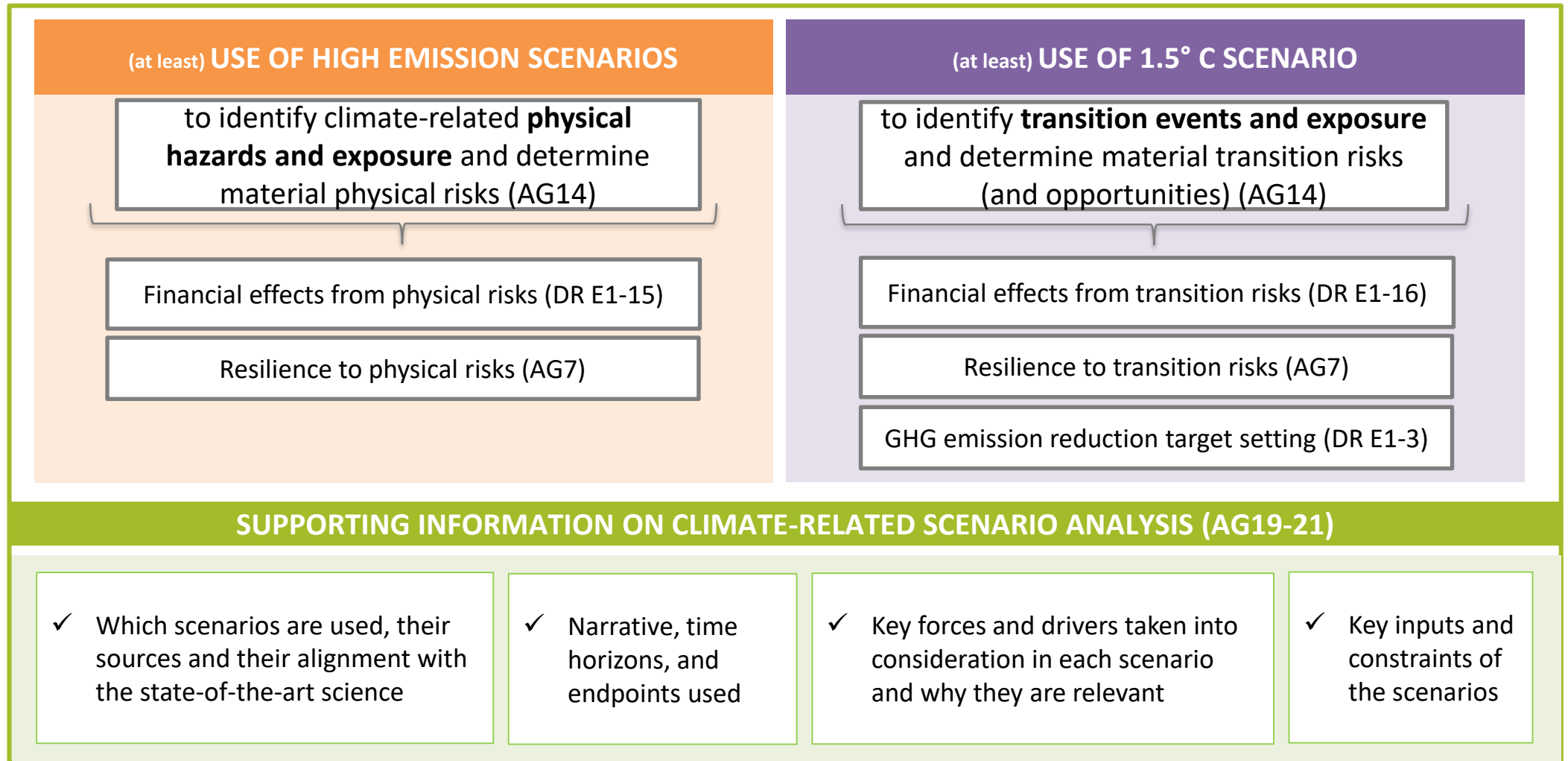
Deep dive on selected Disclosure Requirements

Conceptual approach to reporting on climate-related risks



Deep dive on selected Disclosure Requirements

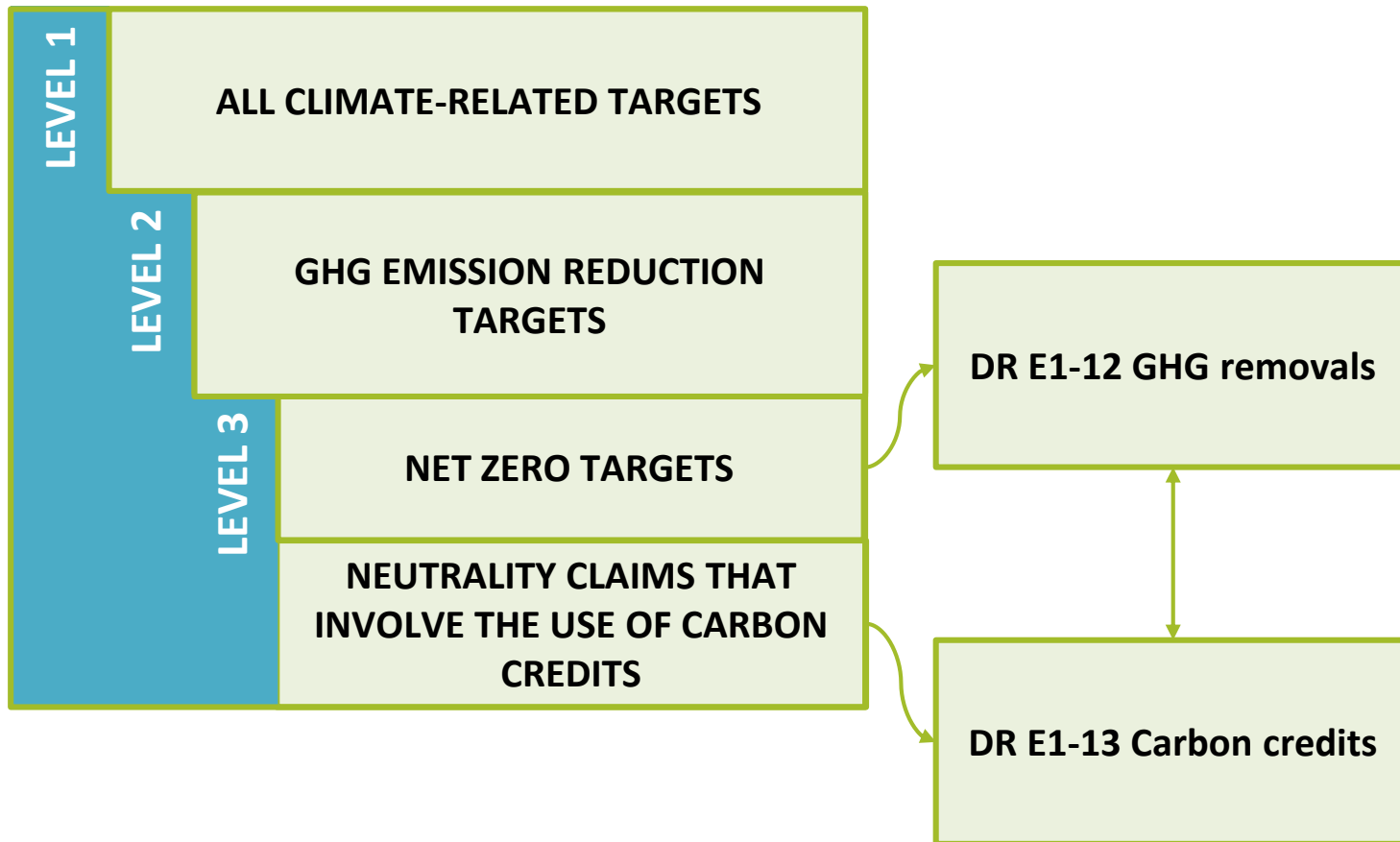
Role of scenario analysis



Deep dive on selected Disclosure Requirements

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

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

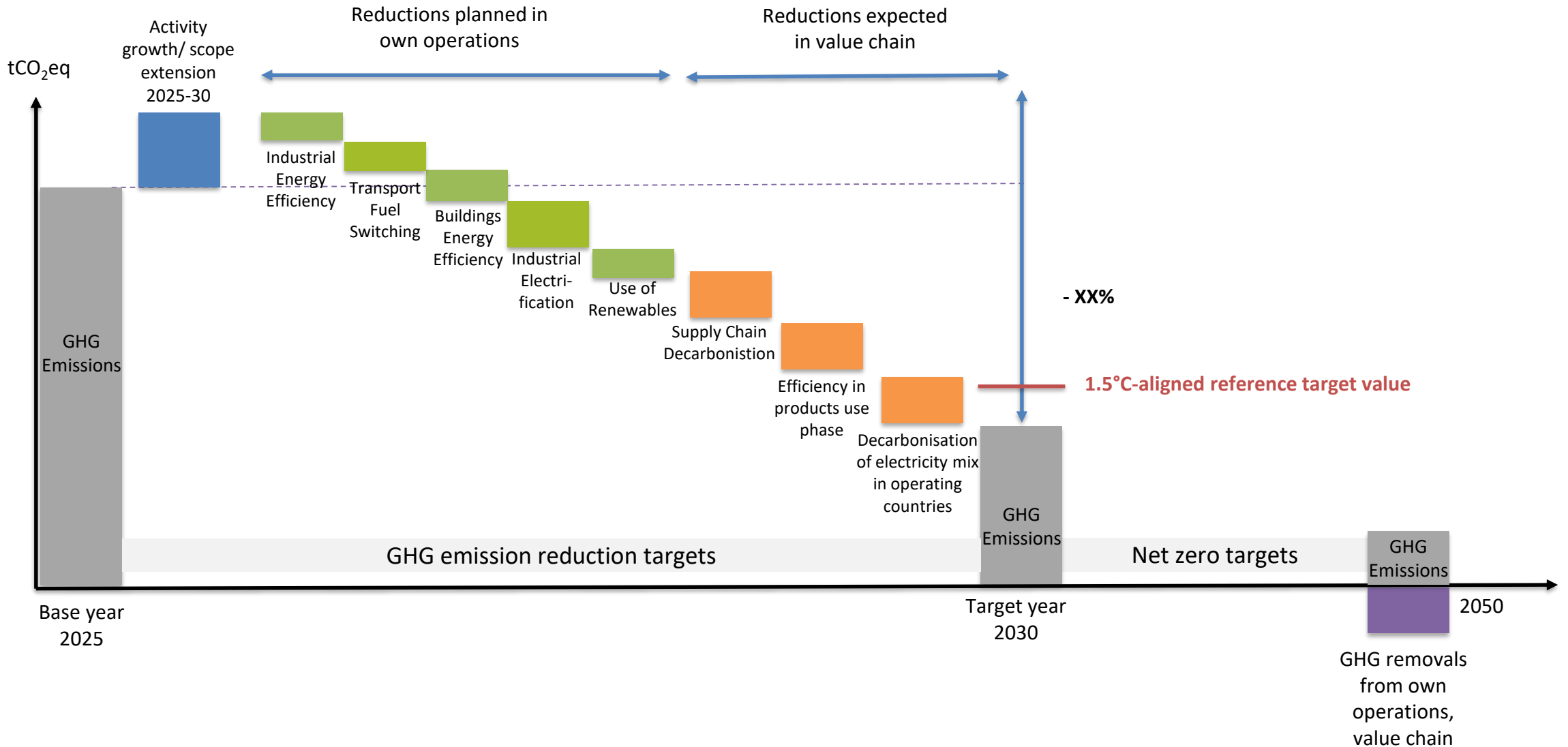


Reporting on GHG emission reduction targets:

- 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

Deep dive on selected Disclosure Requirements

Visualisation of GHG emission reduction targets



Deep dive on selected Disclosure Requirements

DR E1-9 Scope 3 GHG emissions

METHODOLOGY FOR SCOPE 3 GHG EMISSIONS

1

SCREENING

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

CALCULATION

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

DISCLOSURE

- ✓ 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



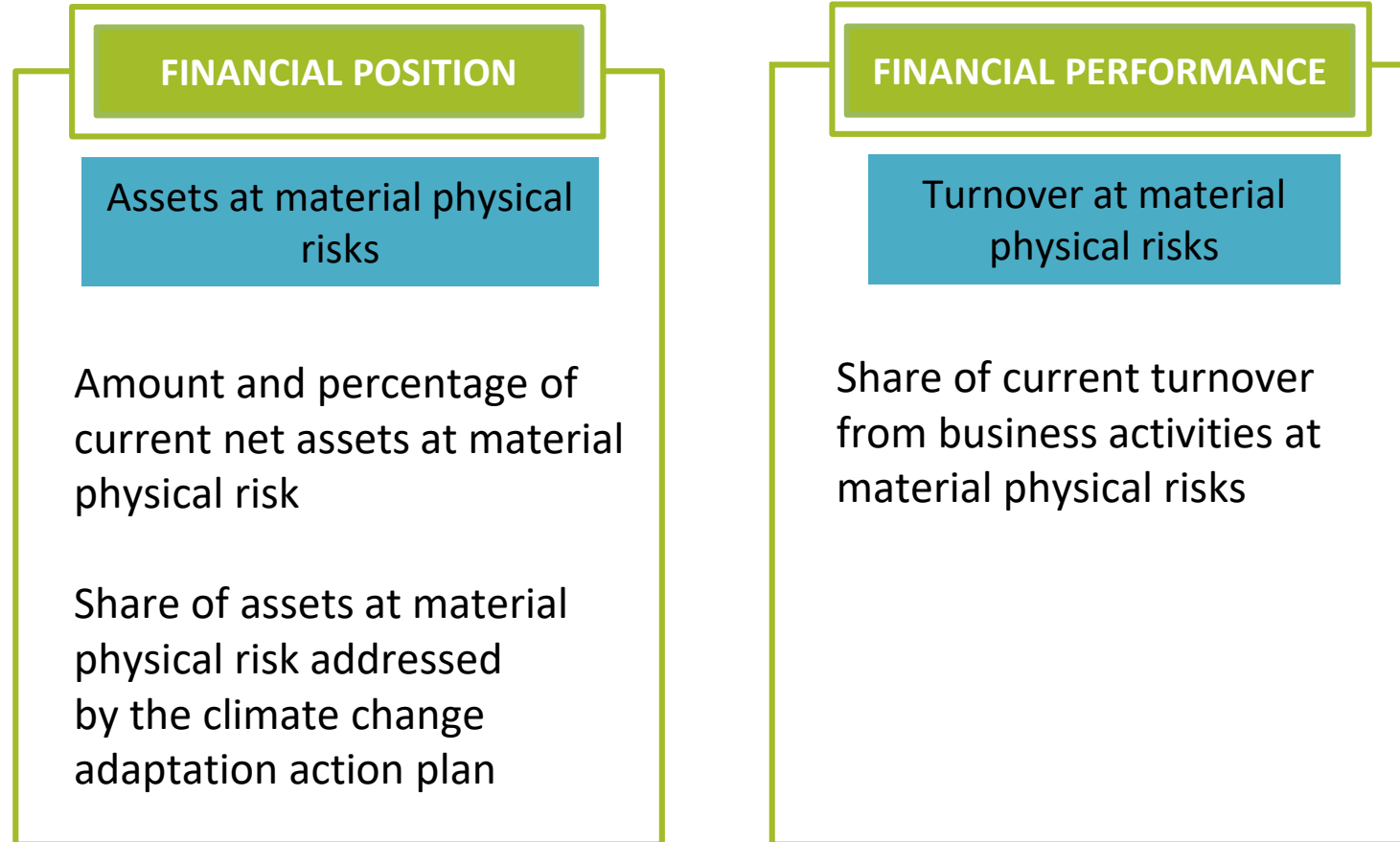
Travels



Financial investments

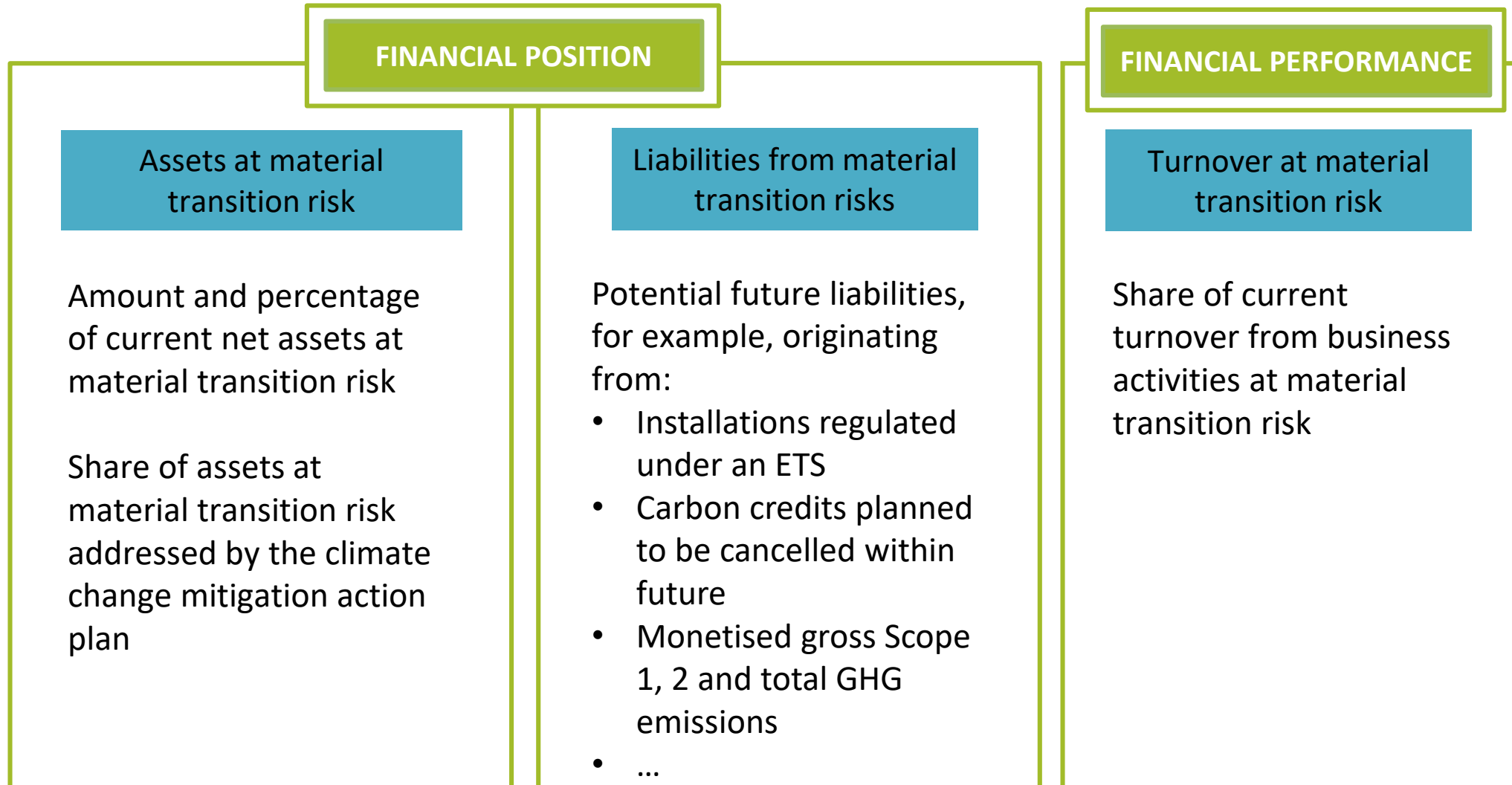
Deep dive on selected Disclosure Requirements

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



Deep dive on selected Disclosure Requirements

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



ESRS E1, IFRS S2 and SEC rule

Provisional comparison

Exposure Draft

[Draft] European Sustainability Reporting Standard E1

Climate change



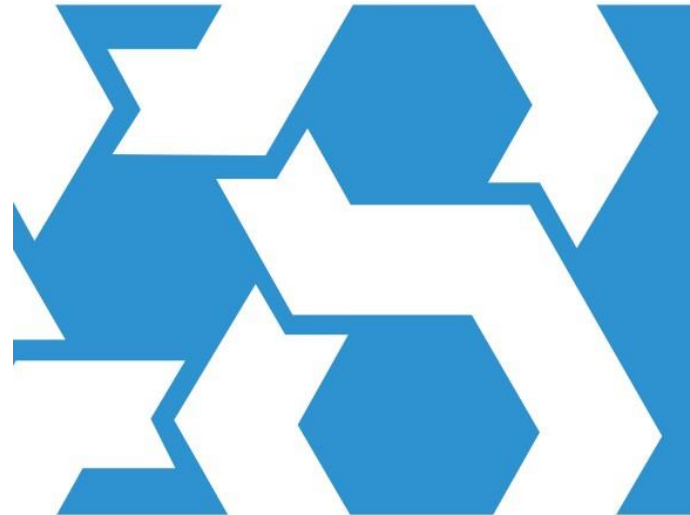
March 2022

Exposure Draft

IFRS® Sustainability Disclosure Standard

[Draft] IFRS S2 Climate-related Disclosures

Comments to be received by 29 July 2022



International Sustainability Standards Board

EDI/2022/S2

FACT SHEET

Enhancement and Standardization of Climate-Related Disclosures



The Securities and Exchange Commission proposed rule amendments that would require a domestic or foreign registrant to include certain climate-related information in its registration statements and periodic reports, such as on Form 10-K, including:

- Climate-related risks and their actual or likely material impacts on the registrant's business, strategy, and outlook;
- The registrant's governance of climate-related risks and relevant risk management processes;
- The registrant's greenhouse gas ("GHG") emissions, which, for accelerated and large accelerated filers and with respect to certain emissions, would be subject to assurance;
- Certain climate-related financial statement metrics and related disclosures in a note to its audited financial statements; and
- Information about climate-related targets and goals, and transition plan, if any.

The proposed disclosures are similar to those that many companies already provide based on broadly accepted disclosure frameworks, such as the Task Force on Climate-Related Financial Disclosures and the Greenhouse Gas Protocol.

Background

The Commission began efforts to provide investors with material information about environmental risks facing public companies in the 1970s and most recently provided related [guidance in 2010](#). Many investors are concerned about the potential impacts of climate-related risks to individual businesses. As a result, investors are seeking more information about the effects of climate-related risks on a company's business to inform their investment decision-making. Investors also have expressed a need for more consistent, comparable, and reliable information about how a registrant has addressed climate-related risks when conducting its operations and developing its business strategy and financial plan. The proposed rules are intended to enhance and standardize climate-related disclosures to address these investor needs. Many issuers currently seek to provide this information to meet investor demand, but current disclosure practices are fragmented and inconsistent. The proposed rules would help issuers more efficiently and effectively disclose these risks, which would benefit both investors and issuers.

Content of the Proposed Disclosures

The proposed rules would require a registrant to disclose information about:

- The oversight and governance of climate-related risks by the registrant's board and management;

U.S. SECURITIES AND EXCHANGE COMMISSION

PAGE 1 OF 3

ESRS E1, IFRS S2 and SEC rule Provisional comparison

All three drafts cover congruent elements of climate-related reporting, including:

- Climate-related governance at different oversight levels
- Processes for identifying, assessing, and managing climate-related risks and opportunities, integration in risk management
- Effects of climate-related risks and opportunities on strategy and business model
- Financial effects of climate-related risks and opportunities
- Capital deployment / resources
- Reconciliation with line items in financial statements
- Resilience of business model and strategy, scenario analysis
- Transition plan, plans and actions to manage risks
- Internal carbon price
- GHG emissions Scope 1 and Scope 2
- GHG emissions Scope 3
- GHG intensity
- Carbon credits

ESRS E1 in addition covers:

- Impacts of the undertaking on climate change
- More comprehensively climate change mitigation and adaptation policies and action plans
- Energy-related performance measurements (IFRS S2 only in sector metrics)
- GHG removals
- (optional) avoided emissions

Approach to climate-related reporting and structure:

- Double materiality (ESRS) vs. investors focus (IFRS S2 / SEC)
- ESRS are structured around Strategy (incl. governance and risks / opportunities), Implementation and Performance, while IFRS S2 (and SEC to a certain extent) is structured around the TCFD pillars: Governance, Strategy, Risk Management and Metrics
- ESRS sector-specific layer is expected for the 2023 while IFRS S2 already includes SASB sectoral metrics in its appendix B (also including non-climate-related metrics)
- ESRS E1 aims for consistency with EU regulations, e.g. EU ETS, EU Taxonomy regulation, SFDR, EMAS
- ESRS E1 is generally more granular in application guidance to foster comparability

ESRS E1, IFRS S2 and SEC rule Provisional comparison

Some technical differences in detail exist, for example:

- Transition plan → E1 relates the transition plan to limiting climate change to 1.5°C, IFRS S2 to target achievement and SEC foremost to mitigating climate-related risks (transition and physical); legacy assets vs. locked-in emissions from key assets
- Targets and offsets → E1 is more granular on reporting GHG emission reduction targets, excluding the use of offsets / carbon credits; E1 provides requirements for reporting on net-zero targets and neutrality claims
- Carbon price → E1 and SEC require comprehensive contextual information
- Terminology (e.g. impact vs. effects; offsets vs. credits, actions vs. efforts, significant vs. material)
- Potential future financial effects from climate-related risks → gross risks in E1 vs. net risks in IFRS S2; E1 more granular application guidance
- SEC requires disclosure of financial effects from severe weather events, other natural conditions and transition activities on financial statement metrics, IFRS S2 focus on upcoming year, E1 on future short-, medium-, and long-term effects

ESRS E1, IFRS S2 and SEC rule

Provisional comparison IFRS S2 and ESRS E1

IFRS S2 CLIMATE-RELATED DISCLOSURES	Main correspondence in ESRS E1 and ESRS 2
GOVERNANCE	
(Par. 4-6) governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities	→ ESRS 2, DR 2-GOV 1-4
STRATEGY	
significant climate-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term (see paragraphs 9–11);	→ ESRS 2, DR-2 IRO 1 and 2-IRO 2 → ESRS E1, Climate-related specific application guidance on DR 2-IRO 1, 2-IRO 2
the effects of significant climate-related risks and opportunities on its business model and value chain (see paragraph 12);	→ ESRS 2, DR 2-SBM 4 → ESRS E1, Climate-related specific application guidance to DR2-IRO 2
the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans (see paragraph 13);	→ ESRS 2, DR 2-SBM 4 → ESRS E1, DR E1-1, E1-2, E1-3, E1-4, E1-13
the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity’s financial planning (see paragraph 14);	→ ESRS 2, DR 2-IRO 2 → ESRS E1, DR E1-15, E1-16
the climate resilience of its strategy (including its business model) to significant physical risks and significant transition risks (see paragraph 15).	→ ESRS 2, DR 2-SBM 4 → ESRS E1, Climate-related specific application guidance on DR 2-SBM 4 and DR 2-IRO 1

ESRS E1, IFRS S2 and SEC rule

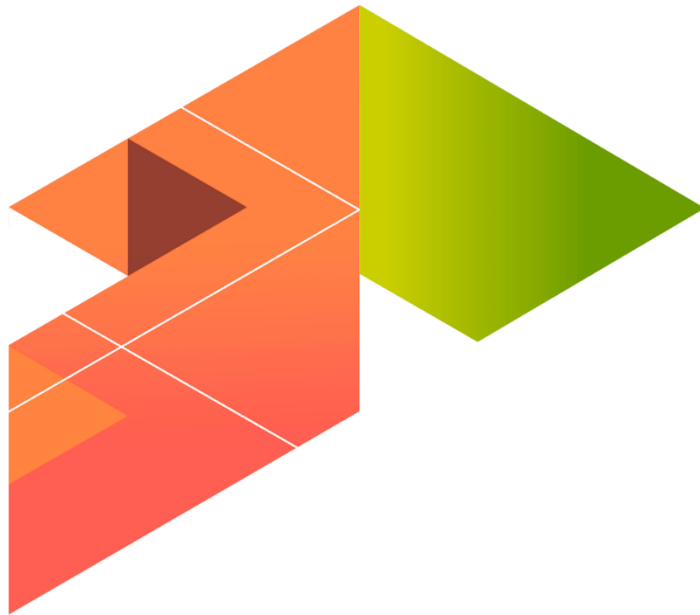
Provisional comparison IFRS S2 and ESRS E1

IFRS S2 CLIMATE-RELATED DISCLOSURES	Main correspondence in ESRS E1 and other ESRS
RISK MANAGEMENT	
(Par. 16-18) process, or processes, by which climate-related risks and opportunities are identified, assessed and managed	<ul style="list-style-type: none"> ➔ ESRS 2, DR 2-IRO 1 ➔ ESRS E1, Climate-related specific AG on DR 2-IRO 1 ➔ ESRS E1 DR E1-2, E1-3, E1-4 ➔ ESRS G1
METRICS AND TARGETS	
Par. 21 (a): GHG emissions: (i) absolute gross GHG emissions: (1) Scope 1, (2) Scope 3, (3) Scope 3 emissions; (ii) its greenhouse gas emissions intensity for each scope (iii) ...	<ul style="list-style-type: none"> ➔ ESRS E1, DR E1-7 (Scope 1) ➔ ERSR E1, DR E1-8 (Scope 2) ➔ ESRS E1, DR E1-9 (Scope 3) ➔ ESRS E1, DR E1-10 (Total) ➔ ESRS E1, DR E1-11 (GHG intensity)
Par. 21 (b): transition risks —the amount and percentage of assets or business activities vulnerable to transition risks;	<ul style="list-style-type: none"> ➔ ESRS E1, DR E1-16
Par. 21 (c): physical risks —the amount and percentage of assets or business activities vulnerable to physical risks;	<ul style="list-style-type: none"> ➔ ESRS E1, DR E1-15
Par. 21 (d): climate-related opportunities —the amount and percentage of assets or business activities aligned with climate-related opportunities;	<ul style="list-style-type: none"> ➔ ESRS E1, DR E1-17
Par. 21 (e): capital deployment —the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities;	<ul style="list-style-type: none"> ➔ ESRS E1, DR E1-4 ➔ Art. 8 Taxonomy disclosure on CapEx
Par. 21 (f): internal carbon prices ...	<ul style="list-style-type: none"> ➔ ESRS 2, DR 2-GOV 4 ➔ ESRS E1, Climate-related specific AG on DR 2-GOV 4
Par. 21 (g): remuneration ...	<ul style="list-style-type: none"> ➔ ESRS 2, DR 2-GOV 4 §62 ➔ ESRS E1, Climate-related specific AG on DR 2-GOV 4
Par. 22 regarding industry-based metrics and relationship with financial statements	<ul style="list-style-type: none"> ➔ ESRS sector standards (set 2) ➔ Reconciliation requirements in related ESRS E1 performance measures
Par. 22 on climate-related targets	<ul style="list-style-type: none"> ➔ ESRS E1, DR E1-3



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THANK YOU



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