

Cover Note

ESRS E 4 – list of comments and changes to the draft

Background

- 1 EFRAG ran a public consultation on 13 ESRS Exposure Drafts (EDs) from the end of April 2022 to the 8 of August 2022.
- 2 The comments received are available at the following link:
[News - EFRAG](#).
- 3 EFRAG run a number of outreach events with different stakeholders from different countries in June and July 2022.
- 4 The consultation was structured in two different Surveys:
 - (a) Survey 1 covers the general approach to the standards, contents of ESRS 1 and prioritisation/phasing-in and it also includes one question per each of the other 12 ESRS EDs;
 - (b) Survey 2 covers the detailed content of 12 ESRS EDs (excluding ESRS 1), with a number of sub-questions covering different aspects per each disclosure requirement.
- 5 EFRAG SRB received a presentation of the comments received in a joint meeting with the EFRAG SR TEG on 8 September. The document used for this presentation can be found [here](#).
- 6 EFRAG has outsourced the analysis of comments received in the public consultation to an external consultant. Their report will be made publicly available in due course. A draft of the report for Survey 1 has been made available the EFRAG Secretariat to allow to progress in the subsequent analysis.

Purpose of this session

- 7 To discuss and approve the proposed detailed course of action to address the comments from the public consultation, including identification of topics that need to be further discussed (with the support of issue papers and SR TEG discussions) before a specific change to the standard is actually defined and agreed upon.

EFRAG Secretariat assessment and recommended course of actions per each question in Survey 1

- 8 The EFRAG Secretariat has conducted an assessment of the comments received in the public consultation. **Agenda Paper 07-02 and 03** presents the outcome of this assessment. Per each comment the papers document the proposed course of action, with the following wording conventions:
 - (a) No action: the EFRAG Secretariat acknowledges the comment, however does not consider necessary or appropriate to propose a change to the standards in order to accommodate the comment/reservation/suggestion. The reasons for this are explained in the column 'EFRAG Secretariat comments'.
 - (b) To be discussed: the EFRAG Secretariat considers that, due to different views that exist between different categories of stakeholders or due to the low support rate of this question in the statistics from the consultation or due to the complexity of the topic, a dedicated technical discussion is needed before a change to the draft standards can be defined in detail and agreed upon. In this case the column 'Issue paper needed?' shows in which Issue paper the topic will be covered. The issue

papers will be presented at future SR TEG/SRB meetings (some of them have been already discussed in SR TEG/SRB at this stage).

- (c) To be aligned: the EFRAG Secretariat proposes to modify the text of the standard as illustrated in the column 'EFRAG Secretariat comments'.
- (d) To be considered: the EFRAG Secretariat proposes to consider this suggestion when finalizing the standard (differently from 'to be aligned', here the comment doesn't allow to immediately identify the change but further consideration is needed, without triggering a SRB discussion as the point is not as complex or controversial as it would be for the 'To be discussed').
- (e) Ongoing: the assessment/change to the standards is in progress.

EFRAG Secretariat assessment and recommended course of actions per each disclosure requirement

- 9 The EFRAG Secretariat has conducted an assessment of the individual disclosure requirements for each standard based on the feedback received to date, including the results of the public consultation. **Agenda Paper 07-04** presents the outcome of this assessment together with recommendations on the categorisation of the disclosure requirements for aspects such as sector-specificity and phase- in together with possible recommendations or operational complexity. The template includes a column 'Always material'. This is a preliminary assessment of whether the DR could be considered eligible (and on which basis) for a list of mandatory items, should the SRB finally decide that the materiality approach should include a list of mandatory items per each standard.

Agenda Papers

- 10 **Agenda Paper 07-02 and 07-03** which covers the respective questions in Survey 1 (only questions where open comments were provided).
- 11 **Agenda Paper 07-04** which covers the respective questions in Survey 1 (only questions where open comments were provided).

Questions to SR TEG members and observers

- 12 With regard to **transition plans**:
- i) Do you agree that E4-1 is moved to sector-specific standards?
 - ii) Would you agree to add more generic language in ESRS 2 SBM 1 35 (c) or SBM 3 44 addressing the following specification in the CSRD **“They should also be required to disclose any plans they may have to ensure that their business model and strategy are compatible with the transition to a sustainable economy [...]”**.
 - iii) Would you prefer alternative approaches, such as keeping E4-1 at the sector-agnostic layer with a phase-in of two to three years?
- 13 With regards to the negotiations of the **Convention on Biological Diversity** and the targets “no net loss by 2030”, “net gain from 2030” and “fully recovery by 2050”: The negotiations will only conclude in December 2022, so after the standards have to be submitted by EFRAG to the European Commission. Would you agree to remove the reference to the aforementioned goals from the standards, because they are neither agreed upon nor well defined? Or do you propose a different approach, considering that the significance of the result of the CBD negotiations will likely be on par with the Paris agreement.
- 14 With regards to **targets**:
- i) Would you agree to add further application guidance on E4-4 §34 (c) specifying how undertakings may disclose how local ecological thresholds were taken into consideration when setting targets in relation to biodiversity and ecosystems. Impacts in regards to biodiversity and ecosystems are local by nature, therefore whether ecological thresholds were taken into account is likely relevant information for users.
 - ii) Would you agree that this provision is also relevant for other environmental standards?
- 15 With regards to E4-5 **Pressure metrics** and E4-6 **Impact metrics**: Do you agree to merge the disclosure requirements, as suggested by GRI?
- 16 With regards to E4-7 **Response metrics**:
- i) Do you agree that E4-7 is a duplicate of E4-2 to E4-4?
 - ii) If so, would you agree to remove the DR and add a provision in E4-2 to E4-4 to track progress against the PTAPR implemented?
- 17 With regards to E4-8 **Biodiversity friendly consumption and production metrics**:
- i) Do you agree to move E4-8 out of ESRS E4, as it cannot be considered sector-agnostic?
 - ii) Would you recommend to move it to the sector-specific layer, where more granular Application Guidance can be added (e.g. labels like MSC or FSC)? Or would it be better to move E4-8 to a potential governance standard on sustainable consumption and production?
- 18 Do you agree to remove E4-9 **Biodiversity offsets** as a disclosure, because the concept of offsetting biodiversity and ecosystems-related impacts is considered immature?
- 19 With regard to **Potential financial effects** E4-10: Do you agree to moving the DR to the sector-specific level with more granular, quantitative disclosure

requirements? Or is it preferable to keep the DR in E4 requesting the undertaking to provide qualitative information?

20 With regard to the **mitigation hierarchy**:

- i) Do you agree that the mitigation hierarchy shall be part of ESRS E4 for users to better understand the quality of response by undertakings concerning their material impacts, dependencies, risks and opportunities?
- ii) Would you agree that the mitigation hierarchy should be applied across all environmental standards and possibly moved to ESRS 2?
- iii) The Secretariat recommends to exclude E4-9 Biodiversity offsets from ESRS E4. Would you also agree to exclude offsetting from the mitigation hierarchy when applied to ESRS E4?

21 Do you have any other comments on this assessment (i.e. templates in agenda papers 07-02, 07-03 and 07-04)?