

## Cover Note

### ESRS E2 – 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.  
The comments received are available at the following link: [News - EFRAG](#).
- 2 EFRAG run a number of outreach events with different stakeholders from different countries in June and July 2022.
- 3 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.
- 4 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 at the link below:  
<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2208191316296134%2F02-01%20-%20Survey%201%20results.pdf>
- 5 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 of ESRS E2.

#### Purpose of this session

- 6 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**

- 7 The EFRAG Secretariat has conducted an assessment of the comments received in the public consultation. **Agenda Paper 03-02** 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.

**Overall harmonisation across Es:**

- PTAPR
  - o CCS consistency with:
    - less prescriptive wording and no duplicates, and
    - with a stronger focus on materiality assessment: Policies should be implemented only on material IROs, Targets should related to Policies and Action plans to ensure Targets are reached and Policies implemented.
  - o Additional PTAPR harmonisation across other Es:
    - Include the step on dependencies and impacts prior to IROs which is particularly relevant for E4 and E3
    - Include the mitigation hierarchy (already there in E4, E2, in a less direct manner in E5)
- Financial effects need a consistent approach starting with qualitative information (preferred option) while application guidance is still to be drafted at a later stage
- Boundaries “basis fo conclusions” linked with TNFD architecture
- Stick to guidance in Application Guidance

**Summary of proposed changes on ESRS E2**

	Value chain	Content	Material across sectors	Phase-in
<b>E2-1 to E2-3 PTAPR</b>	Shall remain	- Harmonisation across Es and across ESRS - Attention on disguised guidance	Yes  <b>Aggregation at group level</b> seems necessary on a sector-agnostic level. Two options: - Proposal to include a breakdown by site at a sector-specific level - Proposal to introduce site reporting for relevance when material	Focus on own operations for year 1
<b>E2-4 Pollution of air, water and soil</b>	Clarification: redraft to well define expectations and separate clearly own operations and value chain (to be phased-in)	Keeps the information at the aggregated level for this sector-agnostic standard – installation/site level to be developed in a sector-specific standard	Option 1: Simplify but keep DR (subject to rebuttable presumption) - move para 37 to application guidance (illustrative) - move para 38 to sector-specific standards.  Option 2: Move the whole DR to sector specific and focus this sector-agnostic standard on materiality assessment, PTAPR and SFDR requirements	- Start in year 1 with own operations - Require value chain information (and LCA) in a phase-in approach
<b>E2-5 Substances of concern</b>	<i>Phase-in approach</i>	Possibility to retain share of turnover information, but remove costs	Option 1: Retain DR in full (subject to rebuttable presumption) but	See option 1 and 2

	Value chain	Content	Material across sectors	Phase-in
		which is more challenging information	<p>phase-in monetary information and value chain information</p> <p>Option 2 (preferred): retain only para 41 (a) on volumes and drop monetary information which would be moved to sector-specific information, while phase-in value chain information</p> <p>Option 3: move the whole DR to sector-specific information. Qualitative information on value chain would still be presented in IROs.</p>	
<b>E2-6 Pollution-related incidents</b>	Clarifying value chain considerations – not mentioned in a very explicit manner.	Merge DR2-6 and 2-7 and see dedicated issue paper	<p>Option 1 is to retain and phase-in quantitative information and value chain information, considering that the rebuttable presumption is sufficient</p> <p>Option 2 (preferred) is to retain qualitative information (including on value chain information with phase-in) and move financial connectivity with quantitative information to sector-specific standard.</p> <p>Option 3 is indeed to move this DR to sector-specific information</p>	<p>Approach:</p> <ul style="list-style-type: none"> <li>- quantitative information and start in year 1 with contextual and qualitative information on incidents and deposits</li> <li>- value chain information</li> </ul> <p>If DR kept at sector-agnostic level.</p>
<b>E2-7 Financial effects</b>	See financial effect paper	See financial effect paper	See financial effect paper	See financial effect paper

### **Key points/Proposal on ESRS E2**

- i. **Sector Specific:** There are mixed views in the consultation's feedback on the fact that the standard would be sector-specific. Some comments note that parts of the standard should be considered sector-specific, others that the standard in full should be sector-specific. A majority of RAR believe ESRS E2 to be sector-agnostic
- Secretariat Comments:** The Secretariat consider that pollution is definitely very material topic (considered one environmental objective in the Taxonomy Regulation) even if it is not as mature as other topics (i.e. E1). Thus the Secretariat proposes to keep the standard at sector-agnostic level at least for PTAPR and key high-level requirements while removing breakdowns and granularity. An alternative option would be to keep only PTAPR and SFDR.

**Questions to SR TEG members and observers**

Do you agree with the general approach to define the standard on “pollution” at sector-agnostic level? If for a specific items you disagree, please explain.

Do you agree with the proposed option to skip granularity and breakdowns at the greatest extent possible at sector-agnostic level? Would you prefer the alternative option?

Do you have any other comments on this assessment?

- ii. **Value chain:** Public consultation reflects mixed views on the importance of value chain: while some note the importance of reporting along the value, others highlight the complexity, lack of available data, verifiability challenges.

*Secretariat Comments:* ESRS architecture envisages that value chain is present in materiality assessment and PTAPR because this is also where the key impacts, risks and opportunities may sit. The materiality assessment throughout the value chain and related PTAPR should remain, but the Secretariat propose to first focus on qualitative and narrative information and phase-in quantitative information over time.

**Questions to SR TEG members and observers**

Do you agree with the proposal to first focus on qualitative and narrative information and phase-in quantitative information over time ? If for a specific items you disagree, please explain.

Do you have any other comments on this assessment?

- iv. **Granularity & AG:** Comments are related to the high granularity and extensivity of the DR with the additional consideration that the application guidance should be limited to the provision of explanations and guidance. At the moment, the application guidance seems to also include requirements.

*Secretariat Comments:* The Secretariat agree to ensure that Application Guidance does not contain Disclosure Requirements and hence to move data points to the main body. For the granularity, ongoing efforts of simplification should be taken into account.

**Questions to SR TEG members and observers**

Do you agree with the proposal to simplify DRs and to move some data points to main body? If for a specific items you disagree, please explain.

Do you have any other comments on this assessment?

- v. **Geographical area (Additional disclosures):** Some respondents ask for a full country-by-country reporting that is needed to fully understand impacts, as impacts frequently vary significantly across countries. Reporting at an aggregate level for the undertaking obscures these country-specific impacts

*Secretariat Comments:* the Secretariat acknowledge the importance of site/geographical location and believe that aggregation at group level seems necessary on a sector-agnostic level. Regarding the breakdown by site, the Secretariat propose two options:

- to include a breakdown by site at a sector-specific level
- to introduce site reporting for relevance when material

**Questions to SR TEG members and observers**

Do you agree with the proposal to provide additional disclosures on geographical locations at sector-agnostic level? Which option do you prefer? If for a specific items you disagree, please explain.

Do you have any other comments on this assessment?

- vi. **DR on “Substances of concerns”:** Main comments were received on the low relevance of the DR across many sectors and that information along the value chain proves to be challenging. They make suggestions to focus at least on own operations.

**Secretariat Comments:** the Secretariat propose three alternative options:

Option 1: retain DR in full (subject to rebuttable presumption) but phase-in monetary information and value chain information

Option 2 (preferred): retain only para 41 (a) on volumes and drop monetary information which would be moved to sector-specific information, while phase-in value chain information

Option 3: move the whole DR to sector-specific information. Qualitative information on value chain would still be presented in IROs. (not much in line with approval RAR of 53%)

**Questions to SR TEG members and observers**

Which option do you prefer? If for a specific items you disagree, please explain.

Do you have any other comments on this assessment?

- vii. **Pollution-related incidents and deposits:** Some respondents consider this DR to be included in sector-specific standards and they ask for action to limit the sector-agnostic disclosure requirements to the description of strategy, impacts, risks and opportunities as well as action plans.

**Secretariat Comments:** the Secretariat propose three alternative options:

Option 1 is to retain and phase-in quantitative information and value chain information, considering that the rebuttable presumption is sufficient;

Option 2 (preferred) is to retain qualitative information (including on value chain information with phase-in) and move financial connectivity with quantitative information to sector-specific standard.

Option 3 is indeed to move this DR to sector-specific information

**Questions to SR TEG members and observers**

Which option do you prefer? If for a specific items you disagree, please explain.

Do you have any other comments on this assessment?