

## Cover Note

### ESRS E3 – 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 ran 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.

#### 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 on ESRS E3.

#### 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 04-02** 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 be 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 for conclusions" linked with TNFD architecture
- Stick to guidance in Application Guidance

### **Summary of proposed changes on ESRS E3**

	Value chain	Content	Material across sectors	Phase-in
<b>E3-1 to E3-3 PTAPR</b>	Shall remain	- Harmonisation across Es and across ESRS - Attention on disguised guidance - More focus on areas at water risk though reporting left at Group level	Yes	Focus on own operations for year 1
<b>E3-4 Water</b>	<i>Value chain was not part of the DR</i> Proposal to add value chain information on a qualitative basis for consistency	- Add guidance for further consistency with GRI - Add breakdowns by areas at water risk - Other breakdown by source and quality of effluent for further alignment with GRI is	Yes, no doubt for water consumption  Mixed views on water withdrawals and water discharges: proposal to move to sector-specific or	Focus on own operations for year 1 (if value chain info added)

	Value chain	Content	Material across sectors	Phase-in
	with ESRS E4 – with phase-in.	withdrawals and discharges remain	alternatively keep them but subject to rebuttable presumption (except for SFDR requirements)	
<b>E3-5 Water intensity</b>	<i>No value chain info</i>	Bring flexibility for the use of other denominators (on top of turnover)	Should follow E3-4	
<b>E3-6 Marine resources</b>	<i>No value chain info</i>	Better define marine resources (EU marine legal framework)	- Option 1: move to sector-specific. - Option 3: keep the Disclosure Requirement while providing more flexibility on the data points in a principles-based approach similar to E4	- Option 2: phase-in
<b>E3-7 Financial effects</b>	Included		- Option 1: move to sector-specific	- Option 2: phase-in and bring in qualitative information

### **Key points/Proposal**

- 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 (in particular marine resources), others that the standard in full should be sector-specific. A majority of RAR believe ESRS E3 to be sector-agnostic. Other comments note that marine resources should be separate from water and possibly sector-specific.

**Secretariat Comments**: The Secretariat consider that water and marines resources are definitely very material topics (considered one environmental objective in the Taxonomy Regulation) even if they are not as mature as other topics (i.e. E1). Thus the Secretariat proposes to keep the standard at sector-specific while simplifying water management performance (move aspects on withdrawals and discharges to sectors) and marine resources (more principles-based similar to E4).

#### **Questions to SR TEG members and observers**

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

*Do you agree with the proposal to analyse the standard DR by DR in order to identify data points to be transferred to sector specific?*

- ii. **Improve consistency with GRI and provide comprehensiveness of datapoints to enhance relevance**: The standard doesn’t address the origin/nature of the water used (sea water, recycled water, water from groundwater...) which would be useful and essential, especially in a context of water scarcity. Similarly, the type and destination of water discharge shall also be specified. In addition, it does not include details on waste water treatment and quality of the effluent discharge (as per GRI)

Secretariat Comments: EFRAG Secretariat recognizes the need to add information on water withdrawal and water discharge to allow more relevant information and further alignment with GRI 303-3 and 303-4 provided that these disclosure requirements remain sector-agnostic. Details on waste water treatment and quality of the effluent discharge may be added along the DR in the dedicated sector-specific standards in order to avoid too much granularity.

Obviously, these levels of granularity would be added only if TEG were to decide to keep withdrawals and discharges at sector-agnostic level.

**Questions to SR TEG members and observers**

*If preferred option is to keep Withdrawals and Discharges*

Do you agree with the proposal to add information on water withdrawal and water discharge at a sector-agnostic level? If for a specific items you disagree, please explain.

Do you agree with the proposal to provide details on waste water treatment and quality of the effluent discharge at sector-agnostic level?

Do you have any other comments on this assessment?

- iii. **Focus on areas at water risk (including high water stress):** The standard doesn't focus enough on high water stress areas. Some suggestions are required to clarify better the disclosure of information with regards to high water stress areas

Secretariat Comments: The proposal would be to amend the standard adding clearer disclosures on areas at water risk.

**Questions to SR TEG members and observers**

Do you agree with the proposal to add information on areas at water risk? If for a specific items you disagree, please explain.

Do you have any other comments on this assessment?

- iv. **Value chain:** There are mixed views in the consultation's feedback on the fact that the reporting on value chain should be included in sector-specific standards (also in consideration of the difficulty to collect data along the value chain) or that the value chain framework and scope of reporting should be more clearly defined in the current standard.

Secretariat Comments: ERSR 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 EFRAG Secretariat proposes to first focus on qualitative and narrative information and phase-in quantitative information. Besides, the Secretariat proposes to also follow this course of action on other DR.

**Questions to SR TEG members and observers**

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

Do you have any other comments on this assessment?

- v. **Granularity:** DRs are too detailed, which will prevent undertakings from complying with requirements on time. Reporting entities are faced with an excessive/disproportionate burden, given the high level of detail of the DRs and the tight timeframe. This is true especially for first time adopters
- (i) **Secretariat Comments:** For the granularity, ongoing efforts of simplification should be taken into account. Unnecessary required granularity will be transformed into illustrative guidance where relevant.

**Questions to SR TEG members and observers**

Do you agree with the proposal to simplify DRs taking into account the possibility to move some data points at sector-specific level? If for a specific items you disagree, please explain.

Do you have any other comments on this assessment?

- vi. **Alignment with international standard:** Several comments were received around international alignment though rarely very specific. Some assess that the DRs go beyond what is required by the CSRD.

**Secretariat Comments:** As a priority, alignment was sought with EU reporting and environmental legislative framework. Then, priority was given to alignment GRI, all the more as there is no existing standard under the ISSB, and TNFD is still draft.

- vii. **Water management performance and intensity:** Some question arises from the definition of water withdrawals and discharges at sector-agnostic level with the proposal to focus the standard on water consumption and SFDR.

**Secretariat Comments:** The Secretariat propose two alternative options. The first preferred option would be to keep only water consumption + SFDR requirements and move water withdrawals and water discharges to sector-specific. The alternative option would be that the standard keeps the disclosure on water withdrawals and discharges (including suggested breakdown for GRI alignment) and count on materiality assessment for companies to use the rebuttable presumption where needed

**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?

- viii. **Marine resources-related performance:** Many respondents underline that providing such disclosure is too burdensome and highly complicated because the topic isn't enough mature and material across all sectors.

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

- Option 1: move the entire Disclosure Requirement to sector-specific (marine resources concept would remain in materiality assessment and PTAPR)
- Option 2 (preferred): phase-in the Disclosure Requirement while providing more guidance and flexibility on the data points in a principles-based approach similar to E4.
- Option 3: keep the Disclosure Requirement while providing more guidance and flexibility on the data points in a principles-based approach similar to E4.

**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?