

Rationale supporting the additions in ESRS E1	EFRAG SR TEG recommendation
GOVERNANCE	
<p>1) Impacts considered in addition to Risks & Opps</p> <ul style="list-style-type: none"> Reference to impacts, risks & opps reflects the double materiality approach (impact and financial materiality). 	<ul style="list-style-type: none"> Justified as CSRD requires to cover impacts. No actions
<p>2) Remuneration directly tied to GHG emissions reductions targets</p> <ul style="list-style-type: none"> ESRS E1 focuses on the link with the achievement of GHG emission reduction targets as this category of climate-related targets is deemed primarily significant based on the impact and financial materiality assessment. 	<ul style="list-style-type: none"> The PTF considered insufficient to speak about 'climate related consideration' and required a direct link to the target. One member considered that this could be moved to sector specific standards. Members noted that this datapoint is very important to the Green Deal and moving to sector specific, considering that we will probably need 3 additional years before we cover all the sectors, would endanger the ambitions of the Green Deal. The rebuttable presumption provides for a mechanism to exclude this datapoint if not material. It was concluded that this is not a candidate for a suggested change in order to get closer to the IFRS approach (as the direct reference to targets is considered necessary in light of the ambitions of the Green Deal). In terms of scope IFRS S1 refers to executive management while ESRS E1 includes also members of the administrative, management or supervisory bodies. When complying with ESRS E1 in principle an undertaking should be also compliant with IFRS S1 on this point. In terms of type of incentive schemes covered, ESRS E1 is narrower, as it refers to links to the climate targets, while IFRS S1 refers to incentives linked to climate consideration. It was however noted that an incentive scheme, in order to be effective, has to refer to targets. Members considered that there would be an opportunity to consider, i.e. ESRS to align with IFRS on this point, i.e. broadening the scope of the DR in ESRS. IFRS requires to disclose the percentage of executive management remuneration that is linked to climate-related considerations; ESRS E1 doesn't have such a detail. The requirement to disclose remuneration schemes derives from the CSRD and is a cross-cutting requirement, i.e. what is required for climate will need to be considered also for the other topics.

	<ul style="list-style-type: none"> • Members considered that there would be an opportunity to consider, i.e. ESRS to align with IFRS on this point, i.e. broadening the requirement of the DR in ESRS. This would result in an additional datapoint also for other topics (or at cross-cutting level).
<p>3) Internal carbon pricing schemes classified under metrics (IFRS S2 21f) vs under governance (ESRS E1 §29)</p> <ul style="list-style-type: none"> • Internal carbon prices are considered a useful governance tool to incentivise reduction of GHG emissions and support the assessment, anticipation and management of climate-related transition risks and opportunities. 	<ul style="list-style-type: none"> • Members considered the difference in location (internal carbon pricing schemes in governance for ESRS rather than in performance metrics in IFRS). Members supported the rationale that the internal pricing schemes are a governance tool rather than a performance metric. • Members noted that the requirement is too narrow, as there are other possible internal pricing schemes than carbon prices that should be covered. The PTF decided to remain aligned with the TCFD and only require carbon pricing schemes. A possible broadening of the requirement would need to avoid duplications with the DR on climate mitigation policies. • Members considered that there would be an opportunity to discuss with the ISSB delegation a possible broadening of the requirement to cover in general internal pricing schemes, including carbon, in both the standards (ESRS E1 and IFRS S2).
<p>STRATEGY</p>	
<p>1) Clearer reference to alignment with limiting global warming to 1.5°C (i.e. transition plan); concept of policies more developed</p> <ul style="list-style-type: none"> • Limiting global warming to 1.5°C is a clear reference to the Paris Agreement which has been signed by the EU and its member states, and which is mentioned by the CSRD as a relevant information for users. • Policies are a cornerstone of the ESRS defined in ESRS 1 and 2 and mentioned by the CSRD. • The objective is to provide transparency on the undertaking's policy commitments (i) to mitigate its negative impacts on climate change and to maximise its positive impact throughout the value chain and (ii) to monitor and manage its physical and transition risks and opportunities, as well as to enhance comparability across undertakings. 	<ul style="list-style-type: none"> • Justified by EU climate law and Green Deal. <p>➔ No actions</p>
<p>2) Locked-in emissions more developed than corresponding concept of legacy assets in IFRS S2 §13 (a) and related stranded assets</p> <ul style="list-style-type: none"> • The disclosure of locked-in emissions of key assets and products indicates to users the viability of an undertaking's transition plan and GHG emission reduction targets and is an indicator of the risk of stranded assets. Locked-in 	<ul style="list-style-type: none"> • The concept of legacy assets (in IFRS S2) is narrower than the concept of locked in emissions, as they exclude assets to be deployed in the near future that result in significant GHG emissions. • Members recommended to keep the broader concept that we have in ESRS E1. <p>➔ Opportunity to ask to the IFRS staff whether they could consider aligning to ESRS concept.</p>

<p>emissions are understood as estimates of future GHG emissions that are likely to be caused by an undertaking's assets or sold products within their operating lifetime. This disclosure should help identify the assets that might become stranded in the future in case they are incompatible with a transition to a climate-neutral economy.</p>	
<p>3) Taxonomy-alignment ratios (Green CapEx and OpEx) and consistency of resources with figures from Taxonomy Regulation</p> <ul style="list-style-type: none"> The role of an undertaking's Taxonomy's alignment is meaningful information that an undertaking should reflect upon in the context of its transition plan given the intention of the EU Taxonomy to classify economic activities as substantially contributing to the objective of climate change mitigation, among other objectives, as defined in Regulation (EU) 2020/852. The undertaking should support transparency on how their transition plans would help the achievement of the taxonomy technical screening criteria as well as how it ensures that existing or future aligned taxonomy activities do not impede or lower the ambition of its GHG emission reduction targets 	<ul style="list-style-type: none"> Justified by the EU law. Action: It was also considered that the text in ESRS could be made clearer.
<p>4) ESRS E1 requires the disclosure of the potential financial effects from material gross climate-related risks over time whereas IFRS S2 requires the disclosure of the effects of gross climate-related risks within the next year (§14 (b)) and of net climate-related risks over time (§14 (c))</p> <ul style="list-style-type: none"> ESRS E1 does not include a reference to the financial effects within the next year as limiting the horizon to the next year seems to lack a conceptual rationale. The CSRD requires to cover double (including financial) materiality over the short-medium-long term. 	<ul style="list-style-type: none"> Members recommended to keep the concept that we have in ESRS E1. ➔ Opportunity to ask to the IFRS staff whether they could consider aligning to ESRS concept.
<p>5) ESRS E1 provides examples of potential assets/liabilities for instance relating to stranded assets, EU ETS</p> <ul style="list-style-type: none"> The provision of examples of potential assets/liabilities supports the need for understandability, verifiability, and comparability of the quantitative potential financial effects despite the lack of mature methodology. The disclosure should further support clarity as to what is expected in the DR, in particular in reference to existing EU legislation (e.g., EU-ETS). 	<ul style="list-style-type: none"> Members recommended to keep the concept that we have in ESRS E1 (linked to EU ETS). This is not an additional DR but examples to illustrate the concept. ➔ No need for actions in terms of alignment.

<p>6) The future potential financial effects from climate-related risks cover gross risks (before mitigation/adaptation policies and actions in ESRS E1 instead of net risks as in IFRS S2 §14 (c))</p> <ul style="list-style-type: none"> ESRS E1 DR E-15 and E-16 requirement to disclose the monetary amount of assets/liabilities and % of turnover at risk. This information is relevant. 	<ul style="list-style-type: none"> The ESRS approach is more complete, as it asks to disclose both gross and net impacts. Gross and net are needed in order to provide more context and facilitate reliability of data (too many uncertainties on both gross and mitigation and information would be even less understandable if we only disclose on a net basis). It is reasonable to say that complying with ESRS undertakings would also comply with IFRS equivalent DRs. <p>No need for actions</p>
<p>7) More details on potential financial effects and opportunities (business activities at risks, market size for low carbon solutions)</p> <ul style="list-style-type: none"> Details on the two categories of climate-related opportunities – (i) expected cost savings with regards to climate change mitigation and adaptation actions; and (ii) potential market size – aim to support the provision of granular, accurate and comparable information. This disclosure should help understand how the undertaking may financially benefit from material climate-related opportunities. It is complementary to the information requested under the Taxonomy Regulation. 	<ul style="list-style-type: none"> The need to cover opportunities derives from CSRD. The item under discussion is the level of detail of the information required. Such level is needed in order to avoid green washing. A possibility to consider (but it would involve discussing also for all the other E standards) is whether the DR should ask to disclose such opportunities only when they have been identified by the management. If they have not been identified, the management would simply state so. <p>To be considered in discussing the other E standards, but no actions for alignment.</p>
RISK MANAGEMENT	
<p>1) Impacts taken into consideration on top of risks and opportunities</p>	<ul style="list-style-type: none"> Justified the CSRD double materiality. No actions
<p>2) The concept of due diligence process is further elaborated on in ESRS 2</p>	<ul style="list-style-type: none"> Justified by the CSRD/CSDDD. No actions
<p>3) More detailed application guidance for physical and transition risks identification and assessment with the provision of detailed climate scenarios §AG 17 and 18</p>	<ul style="list-style-type: none"> Justified by the EU Taxonomy (physical risks) and by the ambitions of the EU Green Deal (the higher level of detail in the guidance will support more robust implementation of the DR and more comparability). No actions
METRICS AND TARGETS	
<p>2) Energy consumption and mix and energy intensity per revenue required by SFDR</p>	<ul style="list-style-type: none"> Justified by the SFDR No actions
<p>3) More details on GHG emissions (share of Scope 1 emissions under EU ETS, Scope 2 emissions in market-based and location-based, distinction between removals, offsets and avoided emissions)</p>	<ul style="list-style-type: none"> Justified by the EU ambitions of the EU Green Deal (the higher level of detail in the guidance will support more robust implementation of the DR and more comparability). No actions

<p>4) Taxonomy-alignment ratios (Green Turnover) and more details on opportunities (cost savings and market size for low carbon products and services)</p>	<ul style="list-style-type: none"> • Alignment with EU Taxonomy • No actions
<p>5) Compatibility between internal carbon prices and those used in financial statements and financial planning; location difference between Governance (ESRS) and Metrics (IFRS S2)</p>	<ul style="list-style-type: none"> • Justified by the EU ambitions of the EU Green Deal (the higher level of detail in the guidance will support more robust implementation of the DR and more comparability) • No actions
<p>6) Specific target on GHG emission reduction and remuneration tied to this target in ESRS</p>	
<p>7) Distinction of three levels of targets: general climate-related targets, GHG emission reduction targets, and net zero targets and other neutrality claims</p>	
<p>8) Scope of the target specified The ESRS E1 follows a more granular approach by requiring the disclosure of the scope of the target in order to increase comparability across undertakings.</p>	
<p>9) Target values aligned with 2030 and 2050 and preferably set over five years rolling periods</p>	
<p>10) Targets presented by decarbonisation levers</p>	
<p>11) Use of carbon offsets excluded from GHG emission reduction targets (only included in net zero targets under specific conditions)</p>	
<p>On item 11 suggest to ISSB staff to align to ESRS.</p>	