

EFRAG SRB 4 October 2022

EFRAG Secretariat recommendations to the SRB
on Climate standard draft E1

4 October 2022



Reminder: Overview of ESRS E1 content

STRATEGY (complemented by General requirements ESRS 2)

Transition plan for climate change mitigation

Resilience of strategy and business model

Climate-related **remuneration**

Internal **carbon pricing** schemes

Material climate-related **impacts, risks and opportunities** assessment

IMPLEMENTATION

Policies implemented to manage climate change mitigation and adaptation

Measurable **targets** for climate change mitigation and adaptation

Climate change mitigation and adaptation **action plans and resources**

PERFORMANCE MEASUREMENT

Energy

Energy **consumption & mix**

Energy **intensity** per revenue

GHG emissions / removals

Scope 1 GHG emissions

Scope 2 GHG emissions

Scope 3 GHG emissions

Total GHG emissions

GHG intensity per net turnover

GHG removals

Carbon credits

Optional : **Avoided GHG emissions** from products and services

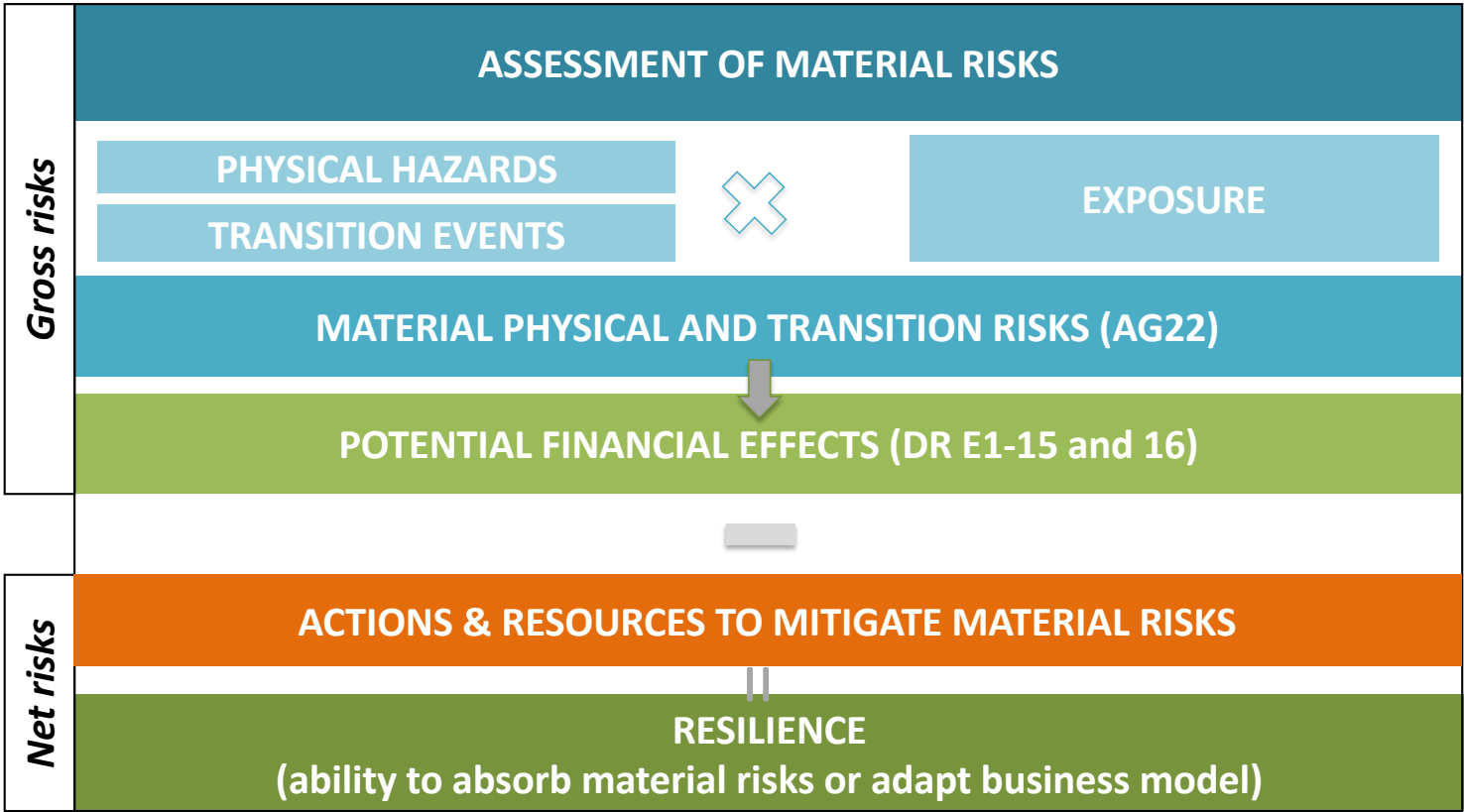
Financial effects- complemented by General requirements in ESRS 2

Financial effects from **physical risks**

Financial effects from **transition risks**

Financial **opportunities**

Conceptual approach to reporting on climate-related impacts, risks & opportunities



Overview of proposed simplification measures and changes

- a) Scaling down the number of datapoints**
- b) Move all datapoints in main body including the ones related to ESRS 2 (except methodological ones)**
- c) Reduction of DRs on performance by regrouping or shifting to sector specific**
- d) Phase-in some DRs**
- e) Clarify some requirements**

The decisions taken are based on the public consultation feedback and the text of the final CSRD Art 29 a) and b) par. 2 that specifies the information to be disclosed.

Strategy requirements and Transition plan

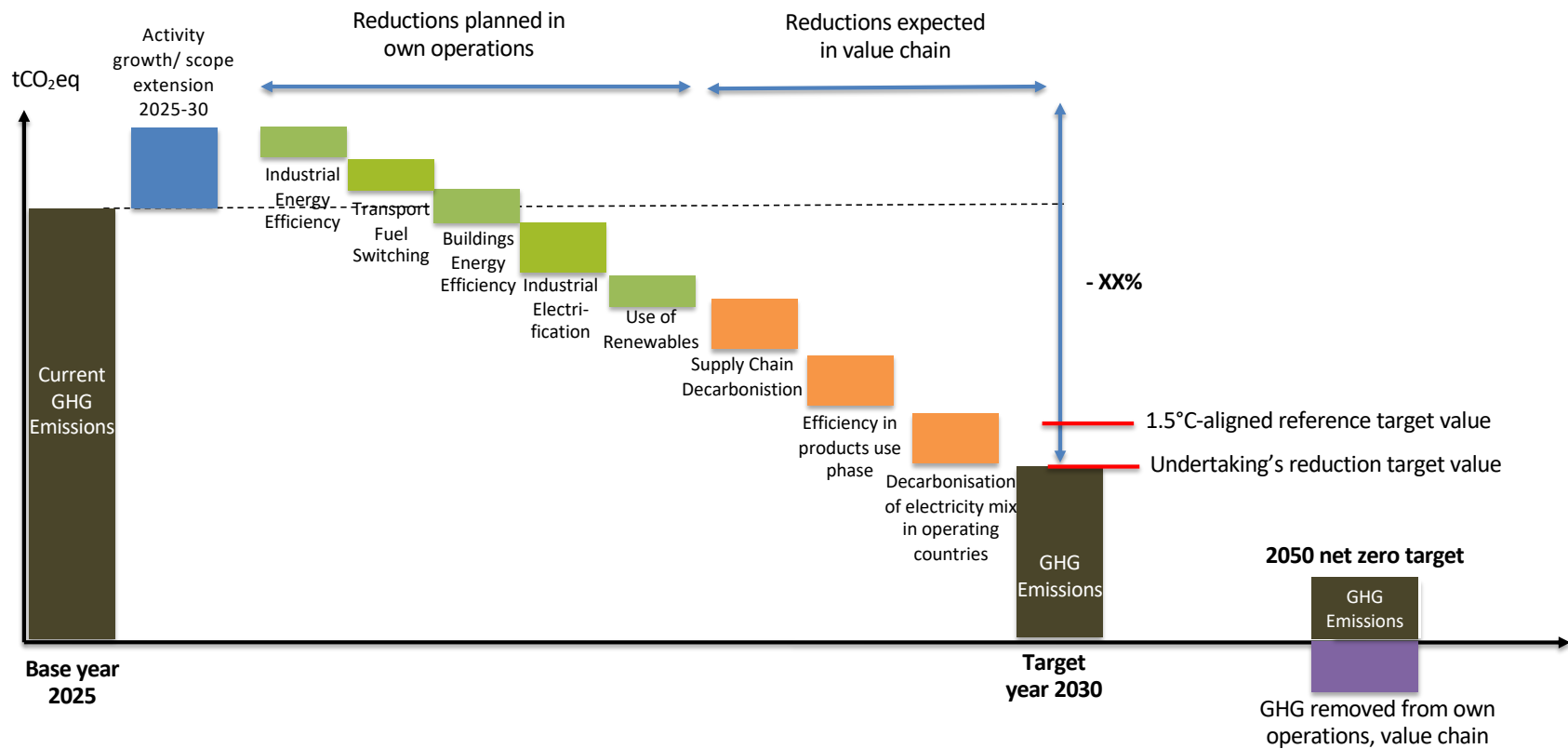
Transition plan:

- Clarify that “ensure **compatibility with limiting of global warming to 1.5°C**” means “an explanation of the target alignment with limiting global warming to 1.5°C” which is basically a **benchmark of the undertaking’s target with 1.5°C**.
- Move quantitative assessment of “**locked-in GHG emissions** from key assets and products” **to sector specific** and only keep a qualitative assessment of locked-in emissions at sector agnostic level

IROs assessment:

- Clarify that scope 1, 2 and 3 GHG emissions are material for all undertakings based on CSRD final text (scope 1,2 and scope 3 where relevant) and SFDR requirements (PAI table 1: “From 1 January 2023, Scope 3 GHG emissions” + “Total GHG emissions”) → materiality of impacts on climate no longer to be assessed
- **Time horizons** for climate-related IROs assessment remaining **free** according to new ESRS 1

Compatibility with the objectives of limiting global warming to 1.5°C in line with Paris Agreement



Policies, targets and action plans & resources

- Strong harmonization between Disclosure Principles and ESRS E leading to **important wording reductions particularly on targets**

Policies:

- **Separate or combined** mitigation and adaptation policies
- **Limit the reference to main legal regulations and other standards** or initiatives if relevant (moved to ESRS 1)

Targets:

- **Flexibility on target timelines till 2030** and then 5 years rolling periods
- **Decarbonization levers aggregated** by type and presented in one merged table covering both actions and targets for simplification purposes

Actions and resources:

- **Only significant CapEx and OpEx** required to be disclosed which will also reduce the connectivity work

Performance measures regrouping and shifting to sectors

Exposure Drafts

Energy	GHG emissions
Energy consumption and mix	Scope 1 13 DRs
Energy intensity per revenue	Scope 2
	Scope 3
	Total GHG emissions
	Removals
Financial effects	Carbon credits
Physical risks	Optional Avoided emissions
Transition risks	GHG intensity per revenue
Opportunities	



Drafts for the EC

Energy	GHG emissions
Energy consumption and mix SFDR	Scope 1, 2, 3 and total SFDR
5 DRs	Removals and carbon credits
SFDR intensity PAI	Financial effects
Energy and GHG intensity per revenue SFDR	Physical, transition risks and opportunities

Performance measures

Energy:

- Comments from public consultation stated that **energy consumption details from non renewable sources** were too granular. “Breakdown of energy consumption by type of non-renewable sources of energy” is one of the optional (table 2) SFDR requirements. We suggest to require these details **only for high climate impact sectors**.

GHG emissions:

- **Scope 1, 2, 3 and total GHG merged** in one DR as it is already the case for AG (but datapoints remain)
- Presentation of **scope 3 by mega categories** not understood → becoming an option in AG
- **Removals and carbon credits merged** in one DR (but separate datapoints remain)
- **Avoided emissions moved** to Set 2

Financial effects:

- Phasing-in period of 1 year for quantitative effects + **3 years qualitative** disclosure if quantitative impracticable
- Specifying **calculation rules** for potential financial effects and CapEx/OpEx (additionality, revenues, etc.)
- Requiring connectivity only for **significant amounts**
- Opportunity to replace “Potential” by “Anticipated” for **alignment with ISSB purposes ?**
- 3 DRs merged into one DR (but datapoints remain)
- Add **exposure to coal, oil & gas-related activities** based on CSRD

Towards compatibility between ESRS E1 and IFRS S2

ESRS E1 not contradictory to IFRS S2 :

- **Transition plan:** E1 more detailed on expected content (compatibility with limiting of global warming to 1.5 °C in line with the Paris Agreement, clear reference to emission reduction targets, locked-in emissions, future taxonomy alignment)
- **Targets :** E1 is more detailed (all kinds of targets and more specific requirements on GHG emission reduction targets, no use of offsets to achieve reduction targets)
- **Mandatory GHG emissions** (scope 1, 2 and 3): jurisdictions have the authority to mandate certain aspects of the IFRS sustainability disclosure standards
- **Resilience and use of scenario** analysis: E1 more prescriptive but should result in more accurate and comparable assessment
- **Physical and transition risks/opportunities and related financial effects:** E1 provides more guidance; May result in more accurate and comparable assessments ?
- **Governance/Remuneration:** E1 links remuneration to emission reduction (not the case in IFRS S2)
- **Energy**-related performance measurements in E1 where IFRS S2 only in sector metrics

ISSB potential deliberations :

- Clarify that “climate-related targets” are GHG emissions reduction targets. Same for remuneration incentives.
- Clarify the terminology (offsets, removals, carbon credits, net zero) to make the “use of offsets” clearer, however, intent is the same
- Incorporate updated GHG Protocol references
- Consider the interest of locked-in emissions for the assessment of stranded assets and products
- Discuss financial effects based on comments received during consultation period / demand from the global market