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## Log of draft explanations

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## *Environmental*

### **ID 245 – Climate risk analysis**

#### **Category**

Environment

#### **Question asked**

What is the relationship between:

- (a) impacts, risks and opportunities related to climate change that are to be identified and assessed in your materiality analysis (ESRS E1 paragraph 20); and
- (b) detailed analyses (using scenario analysis) for climate-related impacts, physical risks and transition risks and opportunities (ESRS E1 paragraph 21)

(ESRS E1 Disclosure Requirements related to ESRS 2 IRO-1)?

[Note that the question has been edited for clarity.]

#### **ESRS reference**

ESRS E1 paragraphs 20, 21, ESRS E1 AR 9-15

#### **Background**

The original question is the following: “What is the difference between: (...)”

## *Log of explanations*

The ESRS distinguish between impacts, risks and opportunities ('IROs') of the undertaking, which are defined in Annex II of the Delegated Act. The undertaking is required to disclose the processes to identify the IROs and to assess which ones are material (ESRS 2 Disclosure Requirement IRO-1). Consequently, the ESRS E1 Disclosure Requirement related to ESRS 2 IRO-1 seeks transparency on the approach taken to assess its material climate-related IROs.

ESRS E1 Disclosure Requirement related to ESRS 2 IRO-1 is conceptually divided into paragraphs that require describing the processes to assess:

- (a) impacts on climate change (ESRS E1 paragraphs 20(a), AR 9 and AR 10);
- (b) climate-related physical risks (ESRS E1 paragraphs 20(b) and AR 11); and
- (c) climate-related transition risks and opportunities (ESRS E1 paragraphs 20(c) and AR 12).

The ESRS E1 paragraphs 20(b)(i) and 20 (c)(i) as well as the corresponding AR 11 and AR 12 refer directly to specific climate scenarios. At the same time, ESRS E1 paragraph 21 requires information on how climate-scenario analysis was used to inform the identification and assessment of physical risks and transition risks and opportunities. Additionally, ESRS E1 paragraph AR 13 seeks transparency on how the scenario analysis was used in relation to disclosures in ESRS E1 paragraphs 19 (ESRS 2 Disclosure Requirement SBM-3) as well as ESRS E1 paragraphs 20, 21, AR 10 and AR 11 (ESRS 2 IRO-1). ESRS E1 paragraph AR 15 requires explanation of how the climate scenarios are compatible with critical assumptions made in the financial statements. Finally, ESRS E1 paragraph AR 14 provides a reference to existing guidance, frameworks and standards on scenario analysis.

Annex II to the Delegated Acts introduces definitions of impacts, sustainability-related impacts, risks, sustainability-related risks, material risks, physical risks, climate-related physical risks, climate-related transition risks, opportunities, material opportunities and climate-related opportunities.

### **Answer**

Impacts, risks and opportunities related to sustainability matters are assessed for materiality and reported when material. The identification of material impacts, risks and opportunities is the outcome of the materiality assessment process.

Paragraphs 20 and 21 of ESRS E1 set the disclosure requirements related to the process followed in order to identify material impacts, risks and opportunities related to climate change that are to be reported.

Preparing a scenario analysis is not a direct requirement in ESRS E1 per se, but several ESRS E1 disclosures refer to it as a foundation of the information to be disclosed. For instance, when the undertaking develops climate scenario analysis, its outcome informs the materiality assessment, particularly for the identification risks and opportunities (ESRS E1 paragraph 21). It is generally used to develop the resilience analysis (ESRS E1 paragraph 19).

Scenario analysis involves identifying and evaluating a range of future events and outcomes under conditions of uncertainty. It deals with the underlying uncertainty in the quantification of the future value of decision variables for one single scenario as well as with the uncertainty of different future scenarios. Scenario analysis helps ensure the quality of the information provided.

In ESRS, this is reflected in the disclosure requirement on processes to identify and assess climate risks which requires explanation of whether the assessment of climate-related physical risks considered at least a high emission climate scenario, and whether the assessment of transition risks considered at least a climate scenario in line with limiting global warming to 1.5°C with no or limited overshooting. These requirements provide transparency on how the assessment of physical and transition risks of climate change has been done and help to better understand how they may impact the undertaking's business, strategies and financial performance over time.

## ID 577 – GHG removals –project definition

### Category

Environment

### Question asked

What is the definition of ‘projects’ in ESRS E1 paragraph 56(a)? Is this related to investments / asset-driven initiatives which establish a new facility, process, technology and the like?

### Reference

ESRS E1 paragraph 56

### Key terms

GHG removals; project definition

### Background

ESRS E1 paragraph 56 states: ‘The undertaking shall disclose:

- (a) GHG removals and storage in metric tonnes of CO<sub>2</sub>eq resulting from projects it may have developed in its own operations, or contributed to in its upstream and downstream value chain ...’

In accordance with the [GHG Protocol for Project Accounting](#), a project is ‘A specific activity or set of activities intended to reduce GHG emissions, increase the storage of carbon, or enhance GHG removals from the atmosphere. A GHG project may be a stand-alone project, or a component of a larger non-GHG project.’

### Answer

In the context of ESRS E1 paragraph 56(a), projects are all activities/interventions conducted by the undertaking which may lead to GHG removals and storage. This is consistent with the project definition provided in the [GHG Protocol for Project Accounting](#) (which does not only refer to GHG removals, see background). It is not limited to asset-driven investments although projects in own operations may imply new asset investments or new investments in existing assets. Projects also encompass, for instance, new application for products. Examples of GHG removal projects include reforestation/afforestation, soil carbon enhancement, ecological restoration, blue carbon removals, integration of bioenergy with carbon capture and storage (BECCS) technologies or, Direct Air Capture of CO<sub>2</sub> with storage (DACCS). Projects will usually test new concepts, technologies or products within the operating context of the company and have both a novelty component as well as a transitory nature – the related activity is operated as a project for a certain limited time period.

## ID 698 – Database for GHG emissions

### Category

Environment

### Question asked

Is it allowed to use OEKOBAUDAT data after EN 15804 to report GHG emissions within the ESRS? Within ESRS, the Commission Recommendation (EU) 2021/2279 is allowed to use and indicates the use of Environmental Footprint [EF v3.1 impact categories](#). On [JRC website](#) it seems like EF v.3.1 impact categories and EN 15804 impact categories are harmonised. Does this mean that these 2 impact categories (EF V3.1 and OEKOBAUDAT) can be used? Can they be summed up when reporting after (EU) 2021/2279?

ESRS Reference

ESRS E1

### Key terms

GHG emissions, impact categories, database

### Background

The [ÖKOBAUDAT](#) platform is offered as a standardized database for ecological evaluations of buildings by the German Federal Ministry for Housing, Urban Development and Building.

The EN 15804 is the Environmental Product Declaration (EPD) standard for the sustainability of construction works and services. This standard harmonises the structure for EPDs in the construction sector, making the information transparent and comparable. Under 15804 the impact category 'climate change, total' relates to total GHG emissions calculated on a Global Warming Potential of 100 years (GWP100), which is consistent with ESRS 1.AR39(d).

Nevertheless, EN 15084 is a Life Cycle Assessment (LCA) standard, which may give rise to some inconsistencies with the application of a yearly annual inventory approach, such as the one adopted in corporate sustainability reporting.

ESRS E1 paragraph AR 39 states: 'When preparing the information for reporting GHG emissions as required by paragraph 44, the undertaking shall:

consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004) [and] may consider Commission Recommendation (EU) 2021/2279 or the requirements stipulated by EN ISO 14064-1:2018. If the undertaking already applies the GHG accounting methodology of ISO 14064- 1: 2018, it shall nevertheless comply with the requirements of this standard (e.g., regarding reporting boundaries and the disclosure of market-based Scope 2 GHG emissions); ...'.

### Answer

When reporting on its GHG emissions the requirements set out in ESRS E1 need to be met. According to ESRS E1, an undertaking shall consider the GHG Protocol Corporate Standard (version 2004) and, in addition, may also consider Commission Recommendation (EU) 2021/2279 or the requirements stipulated by EN ISO 14064-1:2018. Neither the GHG Protocol Corporate Standard, the EN ISO 14064-1 or EN 15804 have specific norms on the adequacy of emission factors to specific uses within an inventory calculation. These issues are largely assessed through good professional judgment, which may include external professional advice and which will help determine the applicability of any given emission factor to a specific calculation case.