This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances. The content of each Explanation has been drafted to provide an answer to a specific technical question and cannot be directly extended by analogy to a different fact-pattern.

This draft has not yet been subject to the English editorial review, which will be performed in the version approved by EFRAG SR TEG when submitted to EFRAG SRB.

Log of draft explanations

Table of content

Cross-Cutting 2

ID 284 and 787 – Sustainability reporting rules for consolidation? 2

ID 526 – Disclosure of a datapoint of a non-material topic / ESRS E3 Disclosure Requirement E3-4 water consumption 5

ID 762 Location of policies, actions, and targets in the sustainability report 7

ID 803 – Own operations vs operational control 9

ID 811 Definition of a positive impact 11

ID 821 – Risk and opportunity for financial materiality 14

ID 855 – Financial materiality and time horizon 16

ID 863 – Metrics calculation – annual average 17

Environment 20

ID 245 – Climate risk analysis 20

ID 268 – GHG emissions reporting 21

ID 283 – Is waste incineration a disposal operation 22

ID 414 - Disaggregation of total emissions 24

ID 531 – Base year 27

ID 535 – Emission trading schemes 28

ID 536 – Carbon credit – Quality standard 30

ID 555- Financial impacts and climate risk 31

ID 577 – GHG removals –project definition 33

ID 636 - Definition of types of removals 34

ID 698 – Database for GHG emissions 35

ID 718 – Disaggregation of GHG emissions 36

ID 802 - Reference lists of biodiversity-sensitive areas 37

Cross-Cutting

ID 284 and 787 – Sustainability reporting rules for consolidation?

[SRT 21 May: objected; is now represented with the feedback received]

Category

Cross-cutting

Question asked

1) Are there sustainability reporting rules for consolidation and if so, what are they? When does financial control apply, when does operational control apply?
2) How does the answer to question 1 relate to the requirements in ESRS S1 *Own workforce* and S2 *Workers in the value* chain?

ESRS Reference

ESRS 1 paragraphs 62 and 67; ESRS E1 paragraphs 46, 50a, 50b, AR 40; ESRS E2 paragraph 29; ESRS S1 paragraph 4; ESRS S1 and S2

Key terms

Sustainability rules for consolidation; operational control; JV and associates and ESRS S1 and S2

Background

The following questions were received, amended, and bundled as stated above:

ID 284: How should joint venture (or associates) employees be taken into account in the sustainability statement? This question mentioned in the background provided by the submitter financial and operational control in respect of joint ventures and associates and how this relates to ESRS S1 *Own workforce* and ESRS S2 *Workers in the value chain*.

ID 787: Are there precise criteria on how companies should consolidate? Is it financial or operational consolidation? The relevant background provided with that question was: Four companies owned by the same stakeholders, same type of activities. They consolidate financially two of the four companies. But the same people operate them. Do they need to consolidate the rest?

The Glossary of terms defines operational control: 'Operational control (over an entity, site , operation or asset) is the situation where the undertaking has the ability to direct the operational activities and relationships of the entity, site , operation or asset.'

ESRS E1 paragraph 46 states (Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions): 'When disclosing the information on ***GHG emissions*** required under paragraph 44, the undertaking shall refer to ESRS 1 paragraphs from 62 to 67. In principle, the data on GHG emissions of its associates or joint ventures that are part of the undertaking's upstream and downstream value chain (ESRS 1 Paragraph 67) are not limited to the share of equity held. For its associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual

arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), the undertaking shall include the GHG emissions in accordance with the extent of the undertaking's **operational control** over them.'

ESRS E1 paragraph 50 states: 'For Scope 1 and Scope 2 emissions disclosed as required by paragraphs 44 (a) and (b) the undertaking shall disaggregate the information, separately disclosing emissions from:

(a) the consolidated accounting group (the parent and subsidiaries); and

(b) investees such as associates, joint ventures, or unconsolidated subsidiaries that are not fully consolidated in the financial statements of the consolidated accounting group, as well as contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), for which it has **operational control**.'

ESRS E2 paragraph 29 states (Disclosure Requirement E2-4 Pollution of air, water and soil): 'The amounts referred in paragraph 28 shall be consolidated amounts including the emissions from those facilities over which the undertaking has financial control and those over which it has **operational control**. The consolidation shall include only the emissions from facilities for which the applicable threshold value specified in Annex II of Regulation (EC) No 166/2006 is exceeded.'

ESRS E4 paragraph 16 states (Disclosure Requirement SBM 3 – Material impacts, risks and opportunities and their interaction with strategy and business model): 'The undertaking shall disclose:

(a) a list of material sites in its own operations, including sites under its **operational control**, based on the results of paragraph 17(a). The undertaking shall disclose these locations by: …'

ESRS 1 paragraph 62 states: 'The sustainability statement shall be for the same reporting undertaking as the financial statements. For example, if the reporting undertaking is a parent company required to prepare consolidated financial statements the sustainability statement will be for the group.'

ESRS 1 paragraph 67 states: 'When associates or joint ventures accounted for under the equity method or proportionally consolidated in the financial statements are part of the undertaking's value chain for example as suppliers the undertaking shall include information related to those associates or joint ventures in accordance with paragraph 63 consistent with the approach adopted for the other business relationships in the value chain. In this case when determining impact metrics the data of the associate or joint venture are not limited to the share of equity held but shall be taken into account on the basis of the impacts that are connected with the undertaking's products and services through its business relationships.'

ESRS S1 paragraph 4 states: 'This Standard covers an undertaking's own workforce, which is understood to include both people who are in an employment relationship with the undertaking ("employees") and non-employees who are either people with contracts with the undertaking to supply labour ("self-employed people") or people provided by undertakings primarily engaged in "employment activities" (NACE Code N78). See Application Requirement 3 for examples of who falls under own workforce. The information required to be disclosed with regard to non-employees shall not affect their status pursuant to applicable labour law.'

IFRS 11 *Joint arrangements* defines 'Joint operations' as: 'A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.'

IFRS 11 paragraph 20 defines: 'A joint operator shall recognise in relation to its interest in a joint operation:

(a) its assets, including its share of any assets held jointly;

(b) its liabilities, including its share of any liabilities incurred jointly;

(c) its revenue from the sale of its share of the output arising from the joint operation;

(d) its share of the revenue from the sale of the output by the joint operation; and

(e) its expenses, including its share of any expense incurred jointly.

Answer

1) ***Are there sustainability reporting rules for consolidation and if so, what are they? When does financial control apply, when does operational control apply?***

The sustainability statement is prepared for the same reporting undertaking as defined for the financial statements, based on financial accounting guidance (IFRS or national GAAP as the case might be) adopted for consolidated financial statements. Therefore, there are no 'sustainability reporting rules for consolidation' besides those used for financial reporting.

ESRS sustainability statement covers the material impacts, risks and opportunities of the entities , assets and sites recognized included in the consolidated financial statements. Material impacts that arise from activities that are internal to the group are also to be reported (e.g. material matters arising from an IT servicing company that provides services solely to the entities of the group and as such does not produce revenues in the consolidated financial statements). If there are material financial risks and opportunities arising for the group from those impacts arising from internal activities, they are also to be reported.

Material impacts, risks and opportunities of joint operations (reference is made to the definition of joint operations in IFRS 11 that are accounted for under proportionate consolidation in the financial statements and to comparable national GAAP provisions) that result in accounting recognition of assets and liabilities are also included.

Beyond the entities included in the accounting consolidation perimeter, investments such as joint ventures and associates recognized in the consolidated financial statements as a single asset (i.e. accounted for under the equity method) are a source of material impacts, risks and opportunities to be reported, as connected with the undertaking through its business relationships in the value chain. When, in addition to the investment relationship, joint ventures (JV) and associates are also actors in the value chain (e.g. suppliers or customers), they are treated as any other counterpart in the value chain (ESRS 1 paragraph 67). This means that the undertaking shall report the proportion of impacts arising from the goods or services that it buys from the JV or associate. In addition, the undertaking has to consider the impacts that arise from its relationship with the JV or associate as investor (e.g. reporting GHG emissions category 15 in addition to the emissions due to the supply relationship).

For the measurement of GHG emissions (E1, paragraphs 46 and 50 b) and of amounts of pollutants (E2, paragraph 29), as well as for the disclosure of the list of material sites in (E4 paragraph 16 a), the information to be reported includes the information of sites, assets and entities not recognised in the consolidated financial statements, when the undertaking exercises operational control over them. When the reporting undertaking does not have operational control on a subsidiary, a site or an asset recognised in the consolidated financial statements, the

relevant amounts of GHG emissions and pollutants are nevertheless included in the sustainability statement.

Reference is made to ID 148 *Scope of consolidation for non-EU and unconsolidated subsidiaries* for the treatment of subsidiaries that are excluded from the consolidation perimeters due to their immateriality.

Reference is made to further guidance on operational control in the Value Chain Implementation Guidance chapter 2.3 *From value chain to own operations – Operational control*.

Reference is made to FAQ 2: *What is meant by the undertaking being "connected" with an impact?* of the Implementation Guidance 1: *Materiality assessment* explaining that impact materiality covers impacts connected with the undertaking's own operations and value chain, including through its products and services, as well as through its business relationships.

2) ***How does the answer to question 1 relate to the requirements in ESRS S1 Own workforce and S2 Workers in the value chain?***

As the sustainability statement is prepared for the same reporting undertaking as defined for financial statements, based on financial accounting guidance adopted for financial statements, this also sets the perimeter for own workforce, which is understood to include both employees and non-employees (see ESRS S1 paragraph 4), and for workers in the value chain under ESRS S2. As mentioned in ESRS S2 paragraph 7: 'The reporting under this Standard shall be consistent, coherent and where relevant clearly linked with reporting on the undertaking's own workforce under ESRS S1, in order to ensure effective reporting.'

Accordingly, material impacts, risks and opportunities of the workforce of joint operations (reference is made to the definition of joint operations in IFRS 11 and to comparable national GAAP provisions that are accounted for under proportionate consolidation) as reflected in the financial statements are considered under ESRS S1 *Own workforce* even if this might result in fractions of workers being included (to note: fractions might also arise if an employee joins or leaves an undertaking during the year).

Joint ventures and associates that are recognized in the consolidated financial statements as a single asset (i.e. accounted for under the equity method) are also a source of material impacts, risks and opportunities to be reported, as connected with the undertaking through its business relationships in the value chain and accordingly are considered under ESRS S2 *Workers in the value chain*.

ID 526 – Disclosure of a datapoint of a non-material topic / ESRS E3 Disclosure Requirement E3-4 water consumption

Category

cross-cutting

Question asked

If water consumption is only deemed material for upstream value chain, is the undertaking still allowed to include this datapoint in their report?

ESRS Reference

ESRS E3 Disclosure Requirement E3-4 (paragraph 28); ESRS 1 chapter 2; paragraphs 11, 33 and 34; QR 26 and 30

Key terms

Water consumption; non-material metric; non-material datapoint

Background

ESRS E3-4 paragraph 28 states: 'The disclosure required by paragraph 26 relates to own operations and shall include: (a) total water consumption in m^3; ….'

ESRS 1 chapter 2 *Qualitative characteristics of information* states: '19. When preparing its sustainability statement, the undertaking shall apply:

(a) the fundamental qualitative characteristics of information, i.e. relevance and faithful representation; and
(b) the enhancing qualitative characteristics of information, i.e. comparability, verifiability and understandability.

20. These qualitative characteristics of information are defined and described in Appendix B of this Standard.'

ESRS 1 paragraph QC 1 and QC 4 state for *Relevance*: 'QC 1. Sustainability information is relevant when it may make a difference in the decisions of users under a double materiality approach (see chapter 3 of this Standard).

Q4. Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, as assessed in the context of the undertaking's sustainability reporting (see chapter 3 of this Standard).'

ESRS 1 paragraph QC 16 and 17 state for *Understandability*: 'QC 16. Sustainability information is understandable when it is clear and concise. Understandable information enables any reasonably knowledgeable user to readily comprehend the information being communicated.

QC 17. For sustainability disclosures to be concise, they need to (a) avoid generic "boilerplate" information, which is not specific to the undertaking; (b) avoid unnecessary duplication of information, including information also provided in financial statements; and (c) use clear language and well-structured sentences and paragraphs. **Concise disclosures shall only include material information.** … .'

ESRS 1 paragraph 33 states for **policies, actions and targets**: 'When disclosing information on policies, actions and targets in relation to a sustainability matter **that has been assessed to be material**, the undertaking shall include the information prescribed by all the Disclosure Requirements and datapoints in the topical and sector-specific ESRS related to that matter and in the corresponding Minimum Disclosure Requirement on policies, actions, and targets required under ESRS 2. If the undertaking cannot disclose the information prescribed by either the Disclosure Requirements and datapoints in the topical or sector-specific ESRS, or the Minimum Disclosure Requirements in ESRS 2 on policies, actions and targets, because it has not adopted the respective policies, implemented the respective actions or set the respective targets, it shall disclose this to be the case and it may report a timeframe in which it aims to have these in place.'

ESRS1 paragraph 34 states for **metrics**: 'When disclosing information on metrics for a **material sustainability matter** according to the Metrics and Targets section of the relevant topical ESRS, the undertaking:

(a) shall include the information prescribed by a Disclosure Requirement if **it assesses such information to be material**; and

(b) may omit the information prescribed by a datapoint of a Disclosure Requirement if it assesses such information to be not material and concludes that such information is not needed to meet the objective of the Disclosure Requirement.'

ESRS 1 paragraph 11 states: 'In addition to the disclosure requirements laid down in the three categories of ESRS, when an undertaking concludes that an impact, risk or opportunity is not covered or not covered with sufficient granularity by an ESRS but is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking's sustainability-related impacts, risks or opportunities . Application requirements AR 1 to AR 5 provide further guidance regarding entity-specific disclosures.

Answer

No, to meet the qualitative characteristics of information the sustainability statement shall only include material information.

Both information on policies, actions and targets (ESRS 1 paragraph 33) and metrics (ESRS 1 paragraph 34) related to a non-material matter is by definition also non-material, and would accordingly not meet the characteristics of information quality i.e., being relevant and understandable (see ESRS 1 paragraphs QC1, QC 4, QC 16 – 17).

Accordingly, if water consumption in own operations is assessed as being non-material the related datapoint on water consumption of own operations shall not be reported.

If, water consumption in the value chain is assessed as material due to its specific facts and circumstances of the undertaking, and as ESRS E3 *Water and marine resources* does not provide for metrics of water consumption in the value chain, the undertaking shall consider presenting entity-specific disclosures (ESRS 1 paragraph 11).

Future ESRS sector standards may include additional metrics to capture value chain.

ID 762 Location of policies, actions, and targets in the sustainability report

Category

Cross-cutting

Question asked

1) In relation to Minimum Disclosure Requirements (MDR) on policies, actions and targets, shall the undertaking report them:
    a) all aggregated in one block each for policies, actions, and targets; or
    b) disaggregated i.e., each policy together with the related action(s) and target(s)?
2) What if policies, actions or targets related to more than one topical standard?

ESRS Reference

ESRS 1 paragraph 13; ESRS 2 paragraphs 61, and 71

Key terms

Structure of the sustainability statement; policies, actions, and targets

Background

[The question received: 'In relation to MDR on policies, actions and targets, should the undertaking report, in each topical standards, one or multiple policies, actions and targets? If so, should the undertaking report topical datapoints related to each policy, action or target in one

block or for each policy?' was modified to be able to address it more precisely and to add another nuance to the question.]

ESRS 1 paragraph 13 states: 'The undertaking shall apply the minimum disclosure requirements regarding policies, actions, metrics and targets together with the corresponding Disclosure Requirements in topical and sector-specific ESRS.'

ESRS 1 paragraph 115 states: 'The undertaking shall structure its ***sustainability statement*** in four parts, in the following order: general information, environmental information (including disclosures pursuant to Article 8 of Regulation (EU) 2020/852), social information and governance information. Respecting the provision in section 3.6 *Material impacts or risks arising from actions to address sustainability matters* of this Standard, when information provided in one part contains information to be reported in another part, the undertaking may refer in one part to information presented in another part, avoiding duplications. The undertaking may apply the detailed structure illustrated in Appendix F of this Standard.'

ESRS 2 paragraph 61 on **MDR on policies and actions** states: 'The corresponding disclosures shall be located alongside disclosures prescribed by the relevant ESRS. When a single policy or same actions address several interconnected sustainability matters, the undertaking may disclose the required information in its reporting under one topical ESRS and cross reference to it in its reporting under other topical ESRS.'

ESRS 2 paragraph 71 on metrics and targets states: "The corresponding disclosures shall be located alongside disclosures prescribed by the topical ESRS."

Answer

1) In relation to Minimum Disclosure Requirements (MDR) on policies, actions and targets, shall the undertaking report them:
   a) Aggregating for a given matter all the policies, all the actions and all the targets pertaining to that matter together? Or
   b) Aggregating per each matter the policy(ies), action(s) and target(s) pertaining to that matter?

The structure of the sustainability statement shall be presented in four parts as prescribed by ESRS 1 paragraph 115. The undertaking shall apply the minimum disclosure requirements regarding policies, actions, metrics and targets together with the corresponding Disclosure Requirements in topical and sector-specific ESRS (ESRS 1 paragraph 13).

ESRS do not prescribe the structure of the sustainability statement in further detail. Both the alternatives are possible provided that the qualitative characteristics of information (see ESRS 1 chapter 2) are met.

2) What if policies, actions or targets relate to more than one topical standard?

When a single **policy** or same **actions** address more than one sustainability topics, the undertaking may disclose the required information in its reporting under one topical ESRS and cross reference to it in its reporting under other topical ESRS (see ESRS 1 paragraph 61).

ESRS 2 paragraph 71 requires that metrics and targets are located alongside the disclosures prescribed by the topical ESRS. ESRS 2 does not specify what to do when the same metric or the same target covers more than one sustainability topic.

Question to SR TEG

Should we add to this Explanation: “this is not expected to happen in practice”? Could you identify examples of this fact pattern?

As ESRS 2 does not explicitly limit the possibility to replicate to metrics and targets the same treatment adopted for policies and actions, should this Explanation allow for analogy?

ID 803 – Own operations vs operational control

[For SR TEG information: This ID consists of two questions. The second part relates to leasing and ESRS E3. As it has been decided when finalizing IG 2 value chain to collect feedback on leasing from the public this ID is split into two. The second question will be answered in the IG on leasing. The answer on the second question is only for information purposes.]

Category

Cross-cutting

Question asked

1. What is the distinction between ‘own operations’ and ‘operational control’ in ESRS?
2. In ESRS E3, if a company is leasing from landlord and landlord is paying the utility bills, does the company report on that water consumption?

ESRS Reference

ESRS E1 paragraphs 62 and 63; ESRS E1 paragraphs 46 and 50; ESRS E2 paragraph 29; ESRS E4 paragraph 16

ESRS E3 paragraph 28 (water consumption)

Key terms

Own operations; water consumption and leased property

Background

The submitter provided the following background information together with the question: ‘We believe these own operations and operational control are separate: operational control is about the authority to implement operating policies, while own operations are about ownership and financial control. To confirm, in ESRS E3, if a company is leasing from landlord and landlord is paying the utility bills, does the company report on that water consumption?’

The Glossary of terms defines operational control: ‘Operational control (over an entity, site , operation or asset) is the situation where the undertaking has the ability to direct the operational activities and relationships of the entity, site , operation or asset.’

ESRS 1 paragraph 62 states: ‘The sustainability statement shall be for the same reporting undertaking as the financial statements. For example, if the reporting undertaking is a parent company required to prepare consolidated financial statements the sustainability statement will be for the group.’

ESRS 1 paragraph 63 states: ‘The information about the reporting undertaking provided in the sustainability statement shall be extended to include information on the material impacts, risks

and opportunities connected with the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain ("value chain information"). In extending the information about the reporting undertaking, the undertaking shall include material impacts, risks and opportunities connected with its upstream and downstream value chain:

(a) following the outcome of its due diligence process and of its materiality assessment; and

(b) in accordance with any specific requirements related to the value chain in other ESRS.'

ESRS E1 paragraph 46 states (Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions): 'When disclosing the information on ***GHG emissions*** required under paragraph 44, the undertaking shall refer to ESRS 1 paragraphs from 62 to 67. In principle, the data on GHG emissions of its associates or joint ventures that are part of the undertaking's upstream and downstream value chain (ESRS 1 Paragraph 67) are not limited to the share of equity held. For its associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), the undertaking shall include the GHG emissions in accordance with the extent of the undertaking's **operational control** over them.'

ESRS E1 paragraph 50 states: 'For Scope 1 and Scope 2 emissions disclosed as required by paragraphs 44 (a) and (b) the undertaking shall disaggregate the information, separately disclosing emissions from:

(a) the consolidated accounting group (the parent and subsidiaries); and

(b) investees such as associates, joint ventures, or unconsolidated subsidiaries that are not fully consolidated in the financial statements of the consolidated accounting group, as well as contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), for which it has operational control.'

ESRS E2 paragraph 29 states (Disclosure Requirement E2-4 Pollution of air, water and soil): The amounts referred in paragraph 28 shall be consolidated amounts including the emissions from those facilities over which the undertaking has financial control and those over which it has **operational control**. The consolidation shall include only the emissions from facilities for which the applicable threshold value specified in Annex II of Regulation (EC) No 166/2006 is exceeded.'

ESRS E4 paragraph 16 states (Disclosure Requirement SBM 3 – Material impacts, risks and opportunities and their interaction with strategy and business model): 'The undertaking shall disclose:

(a) a list of material sites in its own operations, including sites under its operational control, based on the results of paragraph 17(a). The undertaking shall disclose these locations by: …'

ESRS E3 paragraph 28 states (water consumption): 'The disclosure required by paragraph 26 relates **to own operations** and shall include:

(a) total *water consumption* in m3;

(b) …'

Answer

1. What is the distinction between 'own operations' and 'operational control' in ESRS?

Whereas, operational control is defined in the Glossary of terms (see above), own operations are not defined other than not being upstream or downstream value chain (see ESRS 1 paragraphs 62 and 63). Operational control is used in ESRS to include in the measurement of metrics (in E1 for GHG emissions and in E2 for pollution) and in the list of material sites in E4 the information of sites, assets and entities that are under operational control of the undertaking but not recognised in its financial statements.

Looking at the treatment of GHG emissions from entities, sites and assets under operational control, E1 clarifies that they are classified as scope 1 and 2 (refer to ESRS E1 paragraph 50 b). In this sense, despite not belonging to the consolidated group (as they are not in ESRS E1 paragraph 50 a), still they are **not** considered as belonging to the value chain (as they are not in Scope 3), as the undertaking has, the ability to direct the operational activities and relationships of the asset/site/undertaking concerned, as if they were part of own operations. .

2. ***In ESRS E3, if a company is leasing from landlord and landlord is paying the utility bills, does the company report on that water consumption?***

[Only for information purposes. *Potential reclassification as an IG*]

The ESRS E3 paragraph 28 disclosure relates to the water consumption of own operations; it does not refer to who is paying the utility bills. ESRS E3 (respectively this Disclosure Requirement of ESRS E3) does extend the reporting boundary as defined by ESRS 1 paragraph 62 ('same reporting undertaking as the financial statements') as is done by ESRS E1 paragraphs 46 and 50; ESRS E2 paragraph 29; and ESRS E4 paragraph 16 considering operational control.

Accordingly, water consumption as required by ESRS E3 paragraph 28 comprises the consumption of water for properties leased from landlords as recognized in the financial statements of the undertaking.

ID 811 Definition of a positive impact

Category

Cross-cutting

Question asked

1) What defines a 'positive impact' in the double materiality assessment?
2) For example, is polluting less than last year, emitting less CO2e than last year, or having fewer accidents than last year defined as a positive impact? Or as a decreasing negative impact?

ESRS Reference

ESRS 1 paragraph AR 14; ESRS S1 paragraph AR40; ESRS S2 paragraphs 11 (d) and AR37; ESRS S3 paragraphs 9 (c) and AR35; ESRS S4 paragraphs 10 (c) and AR34; [Draft] IG1 paragraphs 157(c); ESRS Glossary of Terms: Sustainability related-impacts

Key terms

Positive impact

Background

[The question received: 'What defines a 'positive impact' in the double materiality assessment, specifically in relation to the identification of impacts, risks, and opportunities? was reworded to the above for clarity; the second question was copied from the background provided by the submitter.]

ESRS Glossary of Terms defines sustainability-related impacts: 'The effect the undertaking has or could have on the environment and people, including effects on their human rights, as a result of the undertaking's activities or business relationships. The impacts can be actual or potential, negative or positive, short-term, medium or long-term, intended or unintended, and reversible or irreversible. Impacts indicate the undertaking's contribution, negative or positive, to sustainable development.'

ESRS 1 paragraph AR 14 states regarding **sustainability-related risks or opportunities**: 'The identification of risks and opportunities that affect or could reasonably be expected to affect the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term is the starting point for financial materiality assessment. In this context, the undertaking shall consider: …

(a) their classification as sources of:
   i. risks (contributing to negative deviation in future expected cash inflows or increase in deviation in future expected cash outflows and/or negative deviation from an expected change in capitals not recognised in the financial statements); or
   ii. opportunities (contributing to positive deviation in future expected cash inflows or decrease in deviation in future cash outflows and/or positive deviation from expected change in capitals not recognised in financial statements).

A few examples or indication on the characteristics of positive impacts are included in ESRS and in Implementation Guidance 1: Materiality assessment.

ESRS S1 paragraph AR40 refers to 'positive impacts for people in the undertaking's own workforce based on their needs'.

ESRS S2 paragraph 11 (d) gives the following examples of positive social impacts related to workers in the value chain: 'updated purchasing practices, capacity-building to supply chain workers' and 'providing opportunities for the workforce such as job creation and upskilling in the context of a 'just transition''.

ESRS S2 paragraph AR37 gives additional examples of positive social impacts related to workers in the value chain: 'The undertaking may disclose whether any initiatives or processes whose primary aim is to deliver positive impacts for value chain workers are designed also to support the achievement of one or more of the UN Sustainable Development Goals (SDGs). For example, through a commitment to advance UN SDG 8 to 'promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all' the undertaking may be providing capacity-building to smallholders in its supply chain, resulting in increases in their income; or it may be supporting training to increase the proportion of women able to take delivery jobs in its downstream value chain.'

ESRS S3 paragraph 9 (c) gives the following example of positive social impact related to affected communities: 'capacity-building to support more and new forms of local livelihoods'.

ESRS S3 paragraph AR 35 gives additional examples of positive social impacts related to affected communities: 'The undertaking may disclose whether any initiatives or processes whose primary aim is to deliver positive impacts for affected communities are designed also to support the achievement of one or more of the UN Sustainable Development Goals (SDGs). For example, through a commitment to advance UN SDG 5 to 'achieve gender equality and empower all women and girls'.

ESRS S4 paragraph 10 (c) gives the following example of positive social impact related to customers and end-users: 'product design that improves its accessibility for persons with disabilities'.

ESRS S4 paragraph AR 34 gives additional examples of positive social impacts related to customers and end-users: 'The undertaking may disclose whether any initiatives or processes whose primary aim is to deliver positive impacts for consumers and/or end-users are designed to also support the achievement of one or more of the UN Sustainable Development Goals (SDGs). For example, through a commitment to advance UN SDG 3 to 'ensure healthy lives and promote well-being for all at all ages' the undertaking may be actively working to make its products less addictive and harmful to physical and psychological health.'

Draft IG1 paragraph 157 (c) gives the following example of a positive social impact: 'An energy producer lowering the cost of renewable energy, allowing more customers to switch to renewable energy, and so contributing to mitigating climate change.'

The definition of positive impact in the Positive Impact Manifesto from the UN Finance UNEP Initiative (2017) (http://www.unepfi.org/wordpress/wp-content/uploads/2017/06/POSITIVE-IMPACT-MANIFESTO-JUNE-17.pdf) can be used as the starting point: 'Positive Impact business and finance should be understood as that which serves to deliver a positive impact on one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated.'

Answer

1) What defines a 'positive impact' in the double materiality assessment?

ESRS defines sustainability-related impacts but does not define negative nor positive impacts (see ESRS Glossary of Terms).

Financial risks / (opportunities) are classified as negative / (positive) deviation in future expected cash inflows or increase / (decreases) in deviation in future expected cash outflows and/or negative / (positive) deviation from an expected change in capitals not recognized in the financial statements. The distinction for risks and opportunities in negative (risk) and positive (opportunity) deviation from the expected does not exist for impacts.

The definition of positive impact in the Positive Impact Manifesto from the UN Finance UNEP Initiative (2017) is of limited help as it is tautological, not clarifying where negative impacts begin and positive end. It is helpful in that it states that positive impacts shall only be considered 'once any potential negative impacts to any of the [environmental, social or governance] pillars have been duly identified and mitigated' after again falling short of clarifying what a negative impact is. However, according to this definition, actions that mitigate negative impacts should not be considered positive impacts. Examples of strategies to mitigate negative impacts are avoidance, minimization and remediation / restoration.

Examples, to provide an understanding of what positive impacts are, are provided above.

2) For example, is polluting less than last year, emitting less CO2e than last year, or having fewer accidents than last year defined as a positive impact? Or as a decreasing negative impact?

Positive impacts related to a material matter shall be considered only once any potential negative impact related to that matter have been duly identified and mitigated. Actions undertaken to avoid, minimize or remediate negative impacts as

(a) polluting less than last year;

(b) emitting less CO2e than last year; or

(c) having fewer accidents than last year;

shall not be considered positive impacts. They will be considered as improvement in the performance in managing the relevant sustainability matters and this will be shown by the comparison with the previous period, when presented (in the first year of application there is no requirement to present comparatives).

ID 821 – Risk and opportunity for financial materiality

[ID objected in SRT 21 May 2024: no netting, assess for materiality separately, even if for the same matter; feedback has now been considered and ID updated accordingly]

Category

Cross-cutting

Question asked

Regarding financial materiality, there are matters that trigger exposure to risks or opportunities only, and others that trigger the exposure to both. In the case of a matter that triggers exposure to both risks and opportunities, should the assessment of materiality be made on each individually or is it on the combined financial risk and opportunity?

In addition to the question asked the submitter provided the following background to the question: 'For example, if we take energy as a topic. Energy consumption is a financial risk because the cost of energy can fluctuate significantly. But there is also an opportunity in terms of reduced energy costs if the company invests in renewable energy and energy-efficient appliances. In this case, should the financial risk be assessed separately from the financial opportunity? Or should there be some assessment of what would weigh stronger in the balance, risk or opportunity, and assess accordingly?

ESRS Reference

ESRS 1 chapter 3.5 *Financial materiality,* paragraphs 49 to 51 and AR 14 to 15

Key terms

Financial materiality; sustainability matters generating sustainability risks or opportunities

Background

ESRS 1 paragraphs 49 to 51 state: '

49. A sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material financial effects on the undertaking. This is the case when a sustainability matter generates risks or opportunities that have a material influence or could reasonably be expected to have a material influence on the undertaking's development financial position financial performance cash flows access to finance or cost of capital over the short- medium- or long-term. Risks and opportunities may derive from past events or future events. The financial materiality of a sustainability matter is not constrained to matters that are within the control of the undertaking but includes information on material risks and opportunities attributable to business relationships beyond the scope of consolidation used in the preparation of financial statements.

50. Dependencies on natural human and social resources can be sources of financial risks or opportunities. Dependencies may trigger effects in two possible ways:

    (a) they may influence the undertaking's ability to continue to use or obtain the resources needed in its business processes as well as the quality and pricing of those resources; and

    (b) they may affect the undertaking's ability to rely on relationships needed in its business processes on acceptable terms.

51. The materiality of risks and opportunities is assessed based on a combination of the likelihood of occurrence and the potential magnitude of the financial effects.'

ESRS 1 paragraph AR 14 states regarding sustainability-related risks or opportunities: 'The identification of risks and opportunities that affect or could reasonably be expected to affect the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term is the starting point for financial materiality assessment. In this context, the undertaking shall consider: …

(a) their classification as sources of:
   i. risks (contributing to negative deviation in future expected cash inflows or increase in deviation in future expected cash outflows and/or negative deviation from an expected change in capitals not recognised in the financial statements); or
   ii. opportunities (contributing to positive deviation in future expected cash inflows or decrease in deviation in future cash outflows and/or positive deviation from expected change in capitals not recognised in financial statements).

ESRS 1 paragraph AR 15 states: 'Once the undertaking has identified its risks and opportunities, it shall determine which of them are material for reporting. This shall be based on a combination of (i) the likelihood of occurrence and (ii) the potential magnitude of financial effects determined on the basis of appropriate thresholds. In this step it shall consider the contribution of those risks and opportunities to financial effects in the short-, medium- and long-term based on:

(a) scenarios /forecasts that are deemed likely to materialise; and
(b) potential financial effects related to sustainability matters deriving either from situations with a below the "more likely than not" threshold or assets/liabilities not, or not yet, reflected in financial statements. This includes:
   i. potential situations that following the occurrence of future events may affect cash flow generation potential;
   ii. capitals that are not recognised as assets from an accounting and financial reporting perspective but have a significant influence on financial performance, such as natural, intellectual (organisational), human, social and relationship capitals; and
   iii. possible future events that may have an influence on the evolution of such capitals.

Answer

When an opportunity and a risk are identified as arising from a given circumstance connected with a sustainability matter, they have to be assessed separately. In the example provided, energy consumption is a source of (financial) risk, because the cost of energy can fluctuate significantly. However, there is also an opportunity, in terms of reduced energy costs, if the company invests

in renewable energy and energy-efficient appliances. The opportunity arises in this case from the possible action of the undertaking (investments).

In financial terms, each risk can also be seen as an opportunity (and vice versa), i.e. if prices will be below expectations, this would bring positive deviations in financial performance (consistent with ESRS 1 paragraph AR 14). Taking the "risk-example" provided by the submitter of fluctuating energy prices for a buyer of energy this also has a downside potential (risk) of energy prices being higher than expected or an upside potential (opportunity) of energy prices being lower than expected.

When identifying whether a (net) risk or a (net) opportunity arise from a given circumstance (step B of a possible materiality assessment process – refer to IG 1 paragraph XX), the undertaking considers the anticipated net financial effect (anticipated positive and negative deviations from expectations) for a given time horizon (short, medium and long term separately).

Supporting material

IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* states for (financial) materiality in paragraph B15 also the importance of expectations in the materiality assessment: 'The decisions described in paragraph B14 [decisions of primary users relate to providing resources to the entity] depend on primary users' expectations about returns, for example, dividends, principal and interest payments or market price increases. Those expectations depend on primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and on their assessment of stewardship of the entity's economic resources by the entity's management and its governing body(s) or individual(s).'

ID 855 – Financial materiality and time horizon

Category

Cross-cutting

Question asked

When assessing risks and opportunities from a financial perspective, how is it possible to integrate the variable of time horizon (e.g. short, medium or long) in the evaluation of magnitude/probability of that risk or opportunity?

ESRS Reference

ESRS 1 chapter 3.5 *Financial materiality;* paragraph AR 14 and AR 15; chapter 6.4 *Definition of short-, medium- and long-term for reporting purposes*

Key terms

Time horizon; financial materiality

Background

ESRS 1 paragraph AR 14 states: 'The identification of risks and opportunities that affect or could reasonably be expected to affect the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term is the starting point for financial materiality assessment. In this context, the undertaking shall consider:

(a) the existence of dependencies on natural and social resources as sources of financial effects (see paragraph 50);

(b) their classification as sources of:

i. risks (contributing to negative deviation in future expected cash inflows or increase in deviation in future expected cash outflows and/or negative deviation from an expected change in capitals not recognised in the financial statements); or

ii. opportunities (contributing to positive deviation in future expected cash inflows or decrease in deviation in future cash outflows and/or positive deviation from expected change in capitals not recognised in financial statements).

ESRS 1 paragraph AR 15 states: 'Once the undertaking has identified its risks and opportunities , it shall determine which of them are material for reporting. This shall be based on a combination of (i) the likelihood of occurrence and (ii) the potential magnitude of financial effects determined on the basis of appropriate thresholds. In this step it shall consider the contribution of those risks and opportunities to financial effects in the short-, medium- and long-term based on:

(a) scenarios /forecasts that are deemed likely to materialise; and

(b) potential financial effects related to sustainability matters deriving either from situations with a below the "more likely than not" threshold or assets/liabilities not, or not yet, reflected in financial statements. This includes:

i. potential situations that following the occurrence of future events may affect cash flow generation potential;

ii. capitals that are not recognised as assets from an accounting and financial reporting perspective but have a significant influence on financial performance, such as natural, intellectual (organisational), human, social and relationship capitals; and

iii. possible future events that may have an influence on the evolution of such capitals.

Answer

Time horizons are integrated into the understanding, identification, and assessment of financial effects by applying time-value of money as reflected in the discounted cash-flow method. A sum of cash-inflow / (cash-outflow) is worth more / (less) now than the same sum will be at a future date due to its earnings potential in the interim.

Accordingly, in addition to the magnitude and the probability of a positive / (negative) deviation of a cash-flow from the expected (see ESRS 1 paragraph AR 14) the time value of money needs to be factored in by discounting, considering whether the effect on cash-flow is expected to arise in the short-, medium- or long-term.

For further guidance refer to IG 1 Materiality Assessment FAQ 9: *How to consider time horizon in the double materiality analysis?*

ID 863 – Metrics calculation – annual average

Category

Cross-cutting

Question asked

When calculating metrics including value chain metrics do we have to consider downstream positions for all four quarters (as of 31.03, 30.06, 30.09, 31.12)?

ESRS Reference

ESRS 2 chapter 5 *Metrics and targets*; all topical ESRS

Key terms

Metrics calculation; annual average

Background

[The original question asked 'When calculating Indicators including Value Chain for the financial sector (Capital markets, Insurance), do we have to consider downstream positions for all four quarters (as of 31.03, 30.06, 30.09, 31.12)?' was referring to metrics calculation in the financial sector but to be more general the question was changed to the above.

As background to the question the submitter provided the following: 'Background is that SFDR requires calculating PAIs for all relevant positions as per quarter end and then build an average.']

ESRS 2 chapter 5 *Minimum disclosure requirement – Metrics MDR-M – Metrics in relation to material sustainability matters* states in paragraphs 73 to 77:

'73. The undertaking shall apply the requirements for the content of disclosures in this provision when it discloses on the metrics it has in place with regard to each material sustainability matter .

74. The objective of this Minimum Disclosure Requirement is to provide an understanding of the metrics the undertaking uses to track the effectiveness of its actions to manage material sustainability matters .

75. The undertaking shall disclose any metrics that it uses to evaluate performance and effectiveness, in relation to a material impact, risk or opportunity.

76. Metrics shall include those defined in ESRS, as well as metrics identified on an entity-specific basis, whether taken from other sources or developed by the undertaking itself.

77. For each metric , the undertaking shall:

   (a) disclose the methodologies and significant assumptions behind the metric, including the limitations of the methodologies used;

   (b) disclose whether the measurement of the metric is validated by an external body other than the assurance provider and, if so, which body;

   (c) label and define the metric using meaningful, clear and precise names and descriptions;

   (d) when currency is specified as the unit of measure, use the presentation currency of its financial statements.

ESRS 1 paragraph 19 states: 'When preparing its sustainability statement, the undertaking shall apply:

   (a) the fundamental qualitative characteristics of information, i.e. relevance and faithful representation; and

(b) the enhancing qualitative characteristics of information, i.e. comparability, verifiability and understandability.'

Answer

ESRS do not require to calculate annual averages based on quarterly figures as required in Article 6 of Commission Delegated Regulation (EU) 2023/363.

ESRS metrics can be stocks or flows. A stock is measured at one specific time and represents a quantity existing at that point in time (say, at calendar year-end), which may have accumulated in the past. A flow variable is measured over an interval of time. For example, assets at material transition risk to be disclosed under ESRS E1 paragraph 67 is a stock-type metrics that would be based on an amount at a point in time (i.e. at financial year-end). Gross scope 1, 2, 3 and Total GHG emissions (ESRS E1 paragraph 44) are flow-type.

Some flow-type metrics require the calculation of annual averages (e.g. ESRS S1 Disclosure Requirement S1-6 – Characteristics of the undertaking's employees). ESRS do not prescribe how to calculate annual averages as long as the calculation method results in information that meets the qualitative characteristics of information (ESRS 1 chapter 2).

Supporting material

Commission Delegated Regulation (EU) 2023/363 of 31 October 2022 states in Article 6: 'Description of the principal adverse impacts of investment decisions on sustainability factors … 3. Financial market participants shall include in the columns 'Impact' in the section 'Description of the principal adverse impacts on sustainability factors' in Table 1 of Annex I a figure on impact as the average of impacts on 31 March, 30 June, 30 September and 31 December of each period from 1 January to 31 December.'

Environment

ID 245 – Climate risk analysis

Question asked

. What is the difference between:

- impacts, risks and opportunities related to climate change that are to be identified and assessed in your materiality analysis; and
- detailed analyses (using scenario analysis) for climate related impacts, physical risks and transition risks and opportunities (ESRS E1 Disclosure Requirements related to ESRS 2 IRO-1)?

ESRS reference

ESRS E1 paragraphs 20, 21, ESRS E1 AR 10-16

Background

The ESRS distinguishes 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:

- impacts on climate change (ESRS E1 paragraphs 20 (a), AR 9 and AR10),
- climate-related physical risks (ESRS E1 paragraphs 20 (b) and AR 11), and
- climate-related transition risks and opportunities (ESRS E1 paragraphs 20 (c) and AR12).

The ESRS E1 paragraphs 20 (b) (i) and 20 (c) (i) as well as the corresponding AR 11 and AR 12 refer directly to the 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 on 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, as well as climate-related opportunities.

Answer

Impacts, risks and opportunities are assessed for materiality and reported when material. The material impacts, risks and opportunities are the outcome of the materiality assessment process.

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

Preparing a scenario analysis is not a requirement in ESRS E1, however when the undertaking develops climate scenario analysis, the outcome of it should inform the materiality assessment in particular for risks and opportunities (ESRS E1 paragraph 21). In addition, it should be 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 not only with the underlying uncertainty in the quantification of the future value of decision variables for one single scenario, but also with the uncertainty of different future scenarios. In ESRS, this is reflected in the requirement to disclose if the assessment of climate-related physical risks considered at least a high emission climate scenario and the assessment of transition risks considered at least a climate scenario in line with limiting global warming to 1.5ºC 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 better understanding of how they may impact its business, strategies and financial performance over time.

ID 268 – GHG emissions reporting

Question asked

I would like to know if corporates need to update and disclose their Gross GHG scope 1-3 each year to comply with the ESRS requirements?

[Note the question has been edited for clarity]

ESRS reference

ESRS 1 paragraph 30, 73, 132 and 133 (b), Appendix C (reference to E1-6); ESRS E1 paragraph 44, AR46 (f)

Background

ESRS 1 paragraph 30 provides that when the undertaking concludes that a sustainability matter is material (…), it shall disclose information according to the Disclosure Requirements (…) in the corresponding topical ESRS. ESRS 1 paragraph 73 states: 'The reporting period for the undertaking's sustainability statement shall be consistent with that of its financial statements.'

ESRS 1 paragraph 132 states: 'For the first 3 years of the undertaking's sustainability reporting under the ESRS, in the event that not all the necessary information regarding its upstream and downstream value chain is available, the undertaking shall explain the efforts made to obtain the necessary information about its upstream and downstream value chain, the reasons why not all of the necessary information could be obtained, and its plans to obtain the necessary information in the future.'

ESRS 1 paragraph 133 states: 'For the first 3 years of its sustainability reporting under the ESRS …, (b) when disclosing metrics, the undertaking is not required to include upstream and downstream value chain information, except for datapoints derived from other EU legislation, as listed in ESRS 2 Appendix B.' This appendix includes Scope 1-3 and total emissions.

ESRS 1 Appendix C: *List of phased-in Disclosure Requirements* includes reference to E1-6 Disclosure Requirement, indicating that undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated

basis where applicable) may omit the datapoints on scope 3 emissions and total GHG emissions for the first year of preparation of their sustainability statement.

ESRS E1 Disclosure Requirement E1-6 paragraph 44 requires the undertaking to disclose its gross Scope 1, Scope 2, Scope 3 and total GHG emissions. With respect to the Scope 3, ESRS E1 paragraph AR 46 (f) requires updating Scope 3 GHG emissions in each significant category every year on the basis of current activity data and update the full Scope 3 GHG inventory at least every 3 years on the occurrence of a significant event or significant change in the circumstances.

Answer

An undertaking shall disclose and update their Gross Scopes 1, 2, 3 and Total GHG emissions on an annual basis (consistent with financial statements, as per ESRS 1 paragraph 73) and in accordance with the provisions of ESRS 1 and ESRS E1-6.

Scope 1 and 2 shall be done on an annual basis. However, with regards to Scope 3 GHG emissions there are specific provisions and phase-ins:

(a) only significant Scope 3 emissions categories (i.e. Scope 3 categories that are a priority for the undertaking) are required to be reported (ESRS E1 paragraph 51);

(b) the update of Scope 3 GHG emissions in each significant category shall occur every year on the basis of current activity data; update of the full Scope 3 GHG inventory (e.g. activity data and emissions factors) is required at least every 3 years on the occurrence of a significant event or a significant change in circumstances; and

(c) undertakings with less than 750 employees may omit scope 3 GHG emissions data in the first year that they apply the standards, according to the Appendix C of ESRS 1.

ID 283 – Is waste incineration a disposal operation

Question asked

Is incineration with energy recovery considered waste diverted or waste disposed?

ESRS reference

ESRS E5, 37 a), b), c)
Key terms: waste; waste incineration; waste recovery; waste disposal;

Background

ESRS E5, paragraph 37 states: ‘The undertaking shall disclose the following information on its total amount of waste from its own operations, in tonnes or kilogrammes:

(a) the total amount of waste generated;

(b) the total amount by weight diverted from disposal, with a breakdown between hazardous waste and non-hazardous waste and a breakdown by the following recovery operation types:

i. preparation for reuse;

ii. recycling; and

iii. other energy recovery.~~;~~

(c) the amount by weight directed to disposal by waste treatment type and the total amount summing all three types, with a breakdown between hazardous waste and non-hazardous waste. The waste treatment types to be disclosed are:

i. incineration;

ii. landfill; and

iii. other disposal operations

(d) the total amount and percentage of non-recycled waste.'

Waste is defined as 'Any substance or object which the holder discards or intends or is required to discard' in the ESRS glossary. This definition refers to Article 3(1) of the Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 on waste and repealing certain Directives (Waste Framework Directive or WFD) the WFD.

Incineration is defined as 'The controlled burning of waste at high temperature with or without energy recovery' in the ESRS glossary.

Recovery is defined as 'Any operation the principal result of which is waste serving a useful purpose by replacing other materials which would otherwise have been used to fulfil a particular function, or waste being prepared to fulfil that function, in the plant or in the wider economy" in the ESRS glossary. This definition refers to article 3(15) of the WFD. Likewise, article 3(15a) of the WFD on the definition of material recovery states that "'material recovery' means any recovery operation, other than energy recovery and the reprocessing into materials that are to be used as fuels or other means to generate energy'.

In addition, ESRS E5 Disclosure Requirement 5-1 requires an undertaking to consider whether and how its policies address the waste hierarchy (as per Art. 4(1) of the WFD:- (a) prevention; (b) preparing for re-use; (c) recycling; (d) other recovery, e.g., energy recovery; and (e) disposal.

The WFD also provides a list of Disposal and Recovery Operations in its in Annex I and Annex II, respectively. While incineration is included in Annex I of disposal operations ("D10 Incineration on land"), Annex II on recovery includes operation "R1 Use principally as fuel or other means to generate energy". This category potentially includes co-incineration where wastes are burned for their fuel content and a note is also included allowing the inclusion of Municipal Solid Waste (MSW) incineration provided that a certain level of energy efficiency is achieved.

Answer

Incineration is to be treated as a recovery operation, if it meets the conditions to be considered as an 'R1 Use principally as fuel or other means to generate energy' operation, according to Annex II of the Waste directive. In this case, it shall be considered as an 'other recovery operation' under ESRS E5, paragraph 37(b)(iii).

If the conditions in which incineration occurs are conducive to its classification as a "D10 incineration on land" operation (Annex II of the Waste Directive), then it shall be classified as a disposal operation.

Supporting material

Please see also Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 on waste and repealing certain Directives (Waste Framework Directive or WFD).

ID 414 - Disaggregation of total emissions

Category

Environmental

Question asked

Should ESRS 1 paragraph AR 48 (table for disaggregating total emissions) be interpreted as a mandate that all disclosers use the given table (as is suggested by the use of 'shall')? If so, could the meaning of the columns be more clearly specified?

ESRS Reference

ESRS E1 paragraph AR 48

Background

ESRS E1 paragraph AR 48 states that the undertaking shall disclose its total GHG emissions disaggregated by Scopes 1 and 2 and significant Scope 3 in accordance with the table below.

	Retrospective				Milestones and target years			
	Base year	Compa-rative	N	% N / N-1	2025	2030	(2050)	Annual % target / Base year
Scope 1 GHG emissions								
Gross Scope 1 GHG emissions (tCO_2eq)								
Percentage of Scope 1 GHG emissions from regulated emission trading schemes (%)								
Scope 2 GHG emissions								
Gross location-based Scope 2 GHG emissions (tCO_2eq)								
Gross market-based Scope 2 GHG emissions (tCO_2eq)								
Significant scope 3 GHG emissions								
Total Gross indirect (Scope 3) GHG emissions (tCO_2eq)								
1 Purchased goods and services								
[Optional sub-category: Cloud computing and data centre services								
2 Capital goods								
3 Fuel and energy-related Activities (not included in Scope1 or Scope 2)								
4 Upstream transportation and distribution								
5 Waste generated in operations								
6 Business traveling								
7 Employee commuting								
8 Upstream leased assets								
9 Downstream transportation								
10 Processing of sold products								
11 Use of sold products								
12 End-of-life treatment of sold products								
13 Downstream leased assets								
14 Franchises								
15 Investments								
Total GHG emissions								
Total GHG emissions (location-based) (tCO_2eq)								
Total GHG emissions (market-based) (tCO_2eq)								

The retrospective columns concern historical data. The base year is the historical reference date or period for which information is available and against which subsequent information can be compared over time as stated in ESRS 1 chapter 6.3 *Reporting progress against the base year*.

As required by ESRS E1 paragraph 34 (c), the base year should be the year of the current short term target period (5 years), and not historical, if an undertaking has achieved early reductions. ESRS E1 paragraph AR 25 requires that when setting new targets, the undertaking shall select a

recent base year that does not precede the first reporting year of the new target period by longer than 3 years. For example, for 2030 as the target year and a target period between 2025 and 2030, the base year shall be selected from the period between 2022 and 2025. For the following 5-year period the base year should be 2030. If early reductions have been achieved, these should be explained in another table or by adding new columns. Reference is made to ID 531 *GHG emission reduction targets - base year*.

ESRS 1 chapter 7.1 *Presenting comparative information* states: 'The undertaking shall disclose comparative information in respect of the previous period for all quantitative metrics and monetary amounts disclosed in the current period. …' This is, the undertaking shall present previous reporting year data for comparison purposes in the 3rd column "Comparative.

In column N (4th column) the undertaking presents the current reporting year figures; and in the 5th column it shall present the % reduction/increase of the value in current year divided by value of previous year.

The Milestones and target years columns are about reporting target information for the years 2025, 2030 and 2050 (if available). It is suggested to include all target values between 2035 and 2050 that the undertaking has set by using the column "2050" as a placeholder for those targets or by adding more columns to the table as applicable - given the requirement in ESRS E1 paragraph 34 (d) to update the target year every 5 years from 20230 onwards. Finally, the 9th column is to report the average annual emission reduction figure by using the following formula

$$average\ annual\ emission\ reduction = \frac{1 - \frac{emissions\ in\ target\ year}{emissions\ in\ target\ base\ year}}{target\ year - base\ year}$$

Answer

ESRS E1 paragraph AR 48 requires the undertaking to disclose its total GHG emissions disaggregated by Scope 1 and 2 and significant scope 3 in accordance with the table provided in that paragraph. Note that the undertaking is only required to fill the cells of the table that are applicable to the undertaking.

The following columns of the table are:

- The base year: to report the value of the metric in the base year against which progress towards the target it measures.
- Comparative year: it is the previous year value for the metric.
- N: the value for the metric in the current year.
- % N/N-1: % reduction/increase from previous year.
- 2025: value of target for the metric in year 2025;
- 2030: value of target for the metric in year 2030;
- (2050): value of any targets set for the metric int he years between 2035 and 2050;
- Annual % target/Base year: report on the average annual emission reduction figure achieved so far by using the following formula
- $average\ annual\ emission\ reduction = \frac{1 - \frac{emissions\ in\ target\ year}{emissions\ in\ target\ base\ year}}{target\ year - base\ year}$.

It is not clear in the answer why "neutralizing 20% with carbon removals would not qualify to a claim of achieving a net-zero target in accordance with ESRS definition". [We believe it is now clear that it is not because the level of reduction of 90-95% is not achieved].

ID 531 – Base year

Category

Environment

Question asked

If the company has an intensity emission reduction target already set with a different base year than ESRS recommends (e.g.: 2021), but no absolute target yet, is it ok to use the same base year as for the intensity target, although it does not follow the ESRS recommendation?

Reference

ESRS E1 paragraphs 34 (c) and (d), and AR 25

Key terms

Base year, intensity emission target

Background

ESRS E1 paragraph 34 states: 'If the undertaking has set GHG emission reduction targets, ESRS 2 MDR-T and the following requirements shall apply: …

(c) the undertaking shall disclose its current base year and baseline value, and from 2030 onwards, update the base year for its GHG emission reduction targets after every five year period thereafter. The undertaking may disclose the past progress made in meeting its targets before its current base year provided that this information is consistent with the requirements of this Standard;

(d) GHG emission reduction targets shall at least include target values for the year 2030 and, if available, for the year 2050. From 2030, target values shall be set after every 5year period thereafter;'

ESRS E1 paragraph AR 25 states: 'When disclosing the information required under paragraph 34(c) on base year and baseline value: …

(b) b) the baseline value and base year shall not be changed unless significant changes in either the target or reporting boundary occur. In such a case, the undertaking shall explain how the new baseline value affects the new target, its achievement and presentation of progress over time. To foster comparability, when setting new targets, the undertaking shall select a recent base year that does not precede the first reporting year of the new target period by longer than 3 years. For example, for 2030 as the target year and a target period between 2025 and 2030, the base year shall be selected from the period between 2022 and 2025;'

Answer

ESRS E1 paragraph AR25 does not set a recommendation but a methodological (application) requirement to set a target base year 'that does not precede the first reporting year of the new target period by longer than 3 years'. If an undertaking has a GHG emission reduction target, it shall disclose in absolute value the GHG emission reduction target and its current target base year and target baseline value. GHG emission reduction targets shall at least include target values for the year 2030 (ESRS E1 paragraph 34 (d)). However, for 2030 as the target year and a target period between 2025 and 2030, the base year shall be selected from the period between 2022 and 2025. In accordance to ESRS E1 paragraph AR25, in order to set a target with a baseline figure in 2021, the target would have to cover the period 2024 to 2030, with 2024 being the first year for reporting on the new target.

ID 535 – Emission trading schemes

Category

Environment

Question asked

Is there a clear definition or exhaustive list of 'regulated Emission Trading Schemes'?

Reference

ESRS E1 paragraphs 48 (b) and AR 44

Key terms

Emission trading schemes

Background

ESRS E1 paragraph 48 states: 'The disclosure on gross Scope 1 GHG emissions required by paragraph 44 (a) shall include:

(a) the gross Scope 1 GHG emissions in metric tonnes of CO_2eq;
(b) and the percentage of Scope 1 GHG emissions from regulated emission trading schemes.'

The related ESRS E1 paragraph AR 44 states: 'When preparing the information on the percentage of Scope 1 GHG emissions from regulated emission trading schemes required under paragraph 48 (b), the undertaking shall:

(a) consider GHG emissions from the installations it operates that are subject to regulated Emission Trading Schemes (ETS), including the EU-ETS, national ETS and non-EU ETS, if applicable;
(b) only include emissions of CO_2, CH_4, N_2O, HFCs, PFCs, SF_6, and NF_3;
(c) ensure the same accounting period for gross Scope 1 GHG emissions and GHG emissions regulated under the ETS; and
(d) calculate the share by using the following formula:

GHG Emissions in (t CO_2eq) from EU ETS installations + national ETS installations + nonEU ETS installations

Scope 1 GHG emissions (t CO2eq)'

Answer

The undertaking shall consider GHG emissions from the installations it operates that are subject to regulated Emission Trading Schemes (ETS), including the EU-ETS, national ETS and non-EU ETS, if applicable (ESRS E1 AR 44). The schemes that fall under this requirement therefore include not only EU ETS, but those regulated ETS which are either upcoming and/or non-EU trading schemes. Only emissions of CO_2, CH_4, N_2O, HFCs, PFCs, SF_6, and NF_3 shall be included. Separate ETS for other greenhouse gases do not have to be included. Currently, there is no clear definition or exhaustive list of 'regulated Emission Trading Schemes'.

[Alternative for SR TEG consideration:

CDP currently still provides a list of ETS's around the world. The list can be found in guidance to question "3.5.2 - Provide details of each Emissions Trading Scheme (ETS) your organization is regulated by." The list is:

Alberta TIER - ETS,

Australia ERF Safeguard Mechanism - ETS,

Austria – ETS,

BC GGIRCA - ETS,

Beijing pilot ETS ,

California CaT - ETS,

Canada federal OBPS - ETS,

China national ETS ,

Chongqing pilot ETS,

EU ETS,

Fujian pilot ETS,

Germany ETS,

Guangdong pilot ETS,

Hubei pilot ETS ,

Indonesia ETS,

Kazakhstan ETS,

Korea ETS,

Massachusetts state ETS,

Mexico pilot ETS,

Montenegro ETS,

New Brunswick ETS,

New Zealand ETS,

Newfoundland and Labrador PSS – ETS,

Nova Scotia CaT - ETS,

Ontario EPS - ETS,

Oregon ETS ,

Québec CaT - ETS,

RGGI - ETS,

Saitama ETS ,

Sakhalin ETS,

Saskatchewan OBPS - ETS,

Shanghai pilot ETS,

Shenzhen pilot ETS,

Switzerland ETS,

Tianjin pilot ETS,

Tokyo CaT - ETS,

UK ETS,

Vietnam ETS,

Washington CAR - ETS]

ID 536 – Carbon credit – Quality standard

Category

Environment

Question asked

Which are the recognized quality standards meant in the following sentence? "(a) the total amount of carbon credits outside the undertaking's value chain in metric tonnes of CO2eq that are verified against recognised quality standards and cancelled in the reporting period." Are we here talking about: opt 1) the voluntary standards for carbon offsetting schemes such as Gold Standard, VCR? opt 2) Mandatory Clean Development Mechanisms? opt 3) Voluntary Electricity Attributes Certificates?

Reference

ESRS E1 paragraphs 59 and AR 61, AR 63; Annex II List of Acronyms and Defined Terms

Key terms

Carbon credits, quality standard

Background

ESRS E1 paragraph 59 states: 'The disclosure on carbon credits required by paragraph 56 (b) shall include, if applicable:

(a) the total amount of carbon credits outside the undertaking's value chain in metric tonnes of CO2eq that are verified against recognised quality standards and cancelled in the reporting period'

ESRS E1 paragraph AR 61 states: 'Financing GHG emission reduction projects outside the undertaking's value chain through purchasing carbon credits that fulfil high-quality standards can be a useful contribution towards mitigating climate change. This Standard requires the undertaking to disclose whether it uses carbon credits separately from the GHG emissions (paragraphs 56 (b) and 59) and GHG emission reduction targets (Disclosure Requirement E1-4). It also requires the undertaking to show the extent of use and which quality criteria it uses for those carbon credits.'

ESRS E1 paragraph AR 63 states: 'When preparing the information on carbon credits required under paragraphs 56 (b) and 59, the undertaking shall:

(a) Consider recognised quality standards; …'

Annex II List of Acronyms and Defined Terms defines 'Recognised quality standard for carbon credits'**:** 'Recognised quality standards for carbon credits are those that are verifiable by independent third parties, make requirements and project reports publicly available and at a minimum ensure additionality, permanence, avoidance of double counting and provide rules for calculation, monitoring, and verification of the project's GHG emissions and removals.'

Answer

As stated in ESRS E1 paragraph 63, the undertaking shall consider recognised quality standards when preparing information on carbon credits. There is currently no list of recognised quality standards for carbon credit recognised by the EU or recommended by EFRAG. The definition of recognised quality standard for carbon credit, detailed in the ESRS glossary, enumerates a list of criteria that need to be met:

- to be verifiable by independent third parties,
- make requirements and project reports publicly available and at a minimum ensure:
    - additionality,
    - permanence,
    - avoidance of double counting and provide rules for calculation,
    - monitoring,
    - and verification of the project's GHG emissions and removals.

As long as those criteria are met, an undertaking can consider the carbon credit as of recognised quality standard for carbon credit.

[If TEG/SRB think compiling such a list would be advantageous, then we would need to change to an IG and have consultation].

ID 555- Financial impacts and climate risk

Category

Environment

Question asked

Provide more clarity around the requirement to report monetary impact from chronic and acute climate risks. The CSRD and ESRS language is not very clear if the requirement is to report the monetary impact of the expected damage and loss from chronic and acute aspects, or if it is simply amount reporting the monetary amount of the values of the assets themselves that see chronic or acute exposure.

Reference

ESRS E1 paragraph 66 (a); ESRS E! Disclosure Requirement E1-9

Key terms

Physical climate risk; financial impacts

Background

ESRS E1 paragraph 66 states: 'The disclosure of anticipated financial effects from material physical risks required by paragraph 64 (a) shall include:

(a) the monetary amount and proportion (percentage) of assets at material physical risk over the short-, medium- and long-term before considering climate change adaptation actions; with the monetary amounts of these assets disaggregated by acute and chronic physical risk. …'

The related ESRS E1 paragraph AR 70 states: 'When preparing the information on assets at material physical risk that is required to be disclosed under paragraph 66 (a), the undertaking shall:

(a) Calculate the assets at material physical risk in terms of monetary amount and as a proportion (percentage) of total assets at the reporting date (i.e., the proportion is an estimate of the carrying value of assets at material physical risk divided by total carrying value as stated in the statement of financial position or balance sheet). The estimate of assets at material physical risk shall be derived starting from the assets recognised in the financial statements. [...] To contextualise this information, the undertaking shall: i. disclose the location of its significant assets at material physical risk. Significant assets located in the EU territory shall be aggregated by NUTS codes 3 level digits (Nomenclature of Territorial Units for Statistics). For significant assets located outside EU territory, the breakdown by NUTS code will only be provided where applicable.

(b) …

(c) to contextualise this information, the undertaking shall: …

ii. disaggregate the monetary amounts of assets at risk by acute and chronic physical risk.'

The ESRS E1 AR 70 (c) (i) and (ii) are consistent with the requirements included in Commission Implementing Regulation (EU) 2022/2453 - Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk, which states that: 'Institutions shall disclose the gross carrying amount of exposures sensitive to impact from chronic climate-change events only, including hazards relating to gradual changes in weather and climate and having a possible impact on economic output and productivity [and] the gross carrying amount of exposures sensitive to impact from acute climate change events only, including hazards that may cause sudden damage to properties, disruption of supply chains, and depreciation of assets [and] the gross carrying amount subject to impact from both chronic and acute climate change events … .'

Answer

The requirement to include the disaggregation of the monetary amounts of assets at risk by acute and chronic physical risk when reporting monetary impact from chronic and acute climate risks stems from the requirements detailed by Commission Implementing Regulation (EU) 2022/2453 - Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk. This regulation states that the undertaking is required to disclose:

- the gross carrying amount of exposures sensitive to impact from chronic climate-change events;
- the gross carrying amount of exposures sensitive to impact from acute climate change events; and
- the gross carrying amount subject to impact from both chronic and acute climate change events.

The intention is not to report the monetary impact of the expected damage and loss from the chronic and acute aspects, which would be more complex and uncertain to estimate. The undertaking is required to report the monetary amount of the assets that are exposed to impact from chronic and/or acute climate change events. This provides a measure of potential exposure to climate risks.

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, ...?

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 CO2eq 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

Projects are any activity/interventions conducted by the undertaking and which, understood within the remit of ESRS E1 paragraph 56 (a), may lead to GHG removals and storage. This would

be consistent with the definition provided in the GHG Protocol for Project Accounting. 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 new application for products, new services or interventions such as testing behaviour incentives to increase energy efficiency. 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 – this is the activity is operated as a project for a certain, limited, time period.

ID 636 - Definition of types of removals

Category

Environment

Question asked

What are, or where can I find the definition of "biogenic removal and storage", "removal and storage from land use", "technological removal and storage" and "hybrid removal and storage" ?

ESRS reference

ESRS E1 paragraph AR 58

Key terms

Removals, biogenic, land use, technological, hybrid

Background

ESRS E1 paragraph 58 states: ‘When preparing the information on GHG removals and storage from the undertaking’s own operations and its upstream and downstream value chain required under paragraphs 56 (a) and 58, the undertaking shall:

(a) consider, as far as applicable, the GHG Protocol Corporate Standard (version 2004), Product Standard (version 2011), Agriculture Guidance (version 2014), Land use, land-use change, and forestry Guidance for GHG project accounting (version 2006); …

The GHG Protocol Product Life Cycle Accounting and Reporting Standard defines biogenic as ‘Produced by living organisms or biological processes, but not fossilized or from fossil sources’.

ESRS Glossary defines ‘Land use (change)’ as ‘The human use of a specific area for a certain purpose (such as residential; agriculture; recreation; industrial, etc.). Influenced by, but not synonymous with, land cover. Land-use change refers to a change in the use or management of land by humans, which may lead to a change in land cover.’

The provisional agreement for a Carbon removals and carbon farming (CRCF) Regulation by the European Parliament and the Council of the EU reached on 20 February 2024 defines ‘biogenic carbon pool’ as “living biomass, litter, dead wood, dead organic matter, mineral soils and organic soils as set out in points (a) to (f) of Part B of Annex I to Regulation 2018/841;”.

Answer

Based on GHG Protocol Corporate Standard (version 2004), Product LCA and Reporting Standard (version 2011), Agriculture Guidance (version 2014), Land use, land-use change, and forestry Guidance for GHG project accounting (version 2006), the following definitions can be derived:

- *Biogenic removal and storage* refers to ***GHG removal and storage*** as defined in ESRS, which is classified as biogenic, this is produced by living organisms or biological processes, but not fossilized or from fossil sources. For a detailed explanation of biogenic the undertaking can refer to the GHG Protocol (e.g. GHG Product LCA and Reporting standard:

'Biogenic removals are due to the uptake of CO_2 by biogenic materials during photosynthesis, while non-biogenic removals only occur if CO_2 is removed from the atmosphere by a non-biogenic product during its production or use stage (…)').

- *Removal and storage from land use* refers to ***GHG removal and storage,*** as defined in ESRS, which results from ***land-use***, which too is defined in ESRS. Additionally, ESRS E1 AR 57b provides examples of such activities (afforestation, reforestation, forest restoration, urban tree planting, agroforestry, building soil carbon). Also, the undertaking can refer to GHG Product LCA and Reporting standard (2011) and GHG Protocol for Project Accounting standard (2005) that speak to GHG removals due to land-use change.
- *Technological removal and storage* refers to ***GHG removal and storage,*** as defined in ESRS, which results from use of technology. Such activities may resemble examples provided in ESRS E1 AR 57b (direct air capture). The undertaking may refer to Annex A to (draft) GHG Protocol Land Sector and Removals Guidance for additional information.
- *Hybrid removal and storage* refers to ***GHG removal and storage,*** as defined in ESRS, that results from combining the use of technology with biogenic removals. ESRS E1 AR 57b provides example of this activity (bioenergy with CO2 capture and storage).

Undertakings interested in carbon removals and carbon farming are also advised to check the provisional agreement reached on 20 February 2024 by the European Parliament and the Council of the EU for a Carbon removals and carbon farming (CRCF) Regulation.

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 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 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 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 200 years (GWP100), which is consistent with ESRS 1.AR39(d).

Nevertheless, EN 15084 is a 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:

(a) 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 according to ESRS, and undertaking shall consider 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.

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 practice and judgment. As such, these issues should be discussed with consultants or the auditors, in case of doubts on the applicability of any given emission factor to a specific calculation case.

ID 718 – Disaggregation of GHG emissions

Category

Environment

Question asked

It seems like in the disclosure requirements, there is no distinction in GHG emissions based on fossil resources and non-fossil resources. Why is this, and would EFRAG recommend to emphasize this difference in CSRD-reporting anyway?

ESRS Reference

ESRS E1 AR 41; ESRS 1 paragraph 55; ESRS E1 paragraphs AR 39 (a); ESRS E1-5

Key terms

GHG emissions, disaggregation

Background

ESRS E1 paragraph AR 41 states: 'In line with ESRS 1 chapter 3.7, the undertaking shall disaggregate information on its GHG emissions as appropriate. For example, the undertaking may disaggregate its Scope 1, 2, 3, or total GHG emissions by country, operating segments, economic activity, subsidiary, GHG category (CO2, CH4, N2O, HFCs, PFCs, SF6, NF3, and other GHG considered by the undertaking) or source type (stationary combustion, mobile combustion, process emissions and fugitive emissions).'

ESRS 1 chapter 3.7 refers to the level of disaggregation applied to support a proper understanding of the material impacts, risks and opportunities of an undertaking. Specifically, ESRS 1 chapter 3.7 paragraph 55 states: 'When defining the appropriate level of disaggregation for reporting, the undertaking shall consider the disaggregation adopted in its materiality assessment.'

ESRS E1 AR 39 (a) states that the undertaking shall 'consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004)' when preparing information for reporting its GHG emissions.

ESRS E1-5 paragraph 37 requires a breakdown of energy consumption between fossil, nuclear and renewable sources. Given that CO_2 emissions are often associated with energy consumption, E1-5 can provide an indication on the fossil origin of emissions.

Answer

The undertaking shall disaggregate the reported information when needed to support a proper understanding of its material impacts, risks and opportunities (ESRS 1 chapter 3.7 *Level of disaggregation*). It shall disaggregate information on its GHG emissions as appropriate (ESRS E1 paragraph AR 41). Therefore, the undertaking may disaggregate their GHG emissions by the distinction between fossil and non-fossil resources, if deemed appropriate and, as stated by ESRS 1 chapter 3.7 paragraph 55, the level of disaggregation used is the one adopted in the undertaking's materiality assessment.

When calculating and reporting on GHG emissions, ESRS E1 paragraph AR 39 (a) states that the undertaking shall consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004). Therefore, the ESRS does not specify these further but refers to the GHG Protocol.

However, ESRS E1-5 paragraph 37 requires a breakdown of energy consumption between fossil, nuclear and renewable sources. Given that CO_2 emissions are often associated with energy consumption, ESRS E1 Disclosure Requirement E1-5 will often provide a reliable indication on the fossil origin of an undertakings emissions.

See also answers to ID 81 – *Subsidiaries, holding company – alignment for GHG Protocol* and ID 167 – *GHG Protocol Scope 3*; these explanations elaborate on the relationship between the ESRS and GHG Protocol as a methodology and for Scope 3 emissions.

ID 802 - Reference lists of biodiversity-sensitive areas

Category

Environment

Question asked

ESRS says 'biodiversity sensitive areas' are Natura 2000 network of protected areas, UNESCO World Heritage sites and KBAs, plus other protected areas, as referred in Appendix D of Annex II to Commission Delegated Reg (EU) 2021/2139. Would any one of the datasets be sufficient for this metric, or does it have to be all?

ESRS Reference

ESRS E4-5 paragraph 35

Key terms

Biodiversity-sensitive areas

Background

ESRS E4-5 paragraph 35 states: 'If the undertaking identified sites located in or near biodiversity-sensitive areas that it is negatively affecting (see paragraph 19(a)), the undertaking shall disclose the number and area (in hectares) of sites owned, leased or managed in or near these protected areas or key biodiversity areas.'

ANNEX II Acronyms and Glossary of Terms defines biodiversity-sensitive areas as: 'Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas ('KBAs'), as well as other protected areas, as referred to in Appendix D of Annex II to Commission Delegated Regulation (EU) 2021/2139(8).'

Appendix D of Annex II to Commission Delegated Reg (EU) 2021/2139 states: '(…) For sites/operations located in or near biodiversity-sensitive areas (including the Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas, as well as other protected areas), an appropriate assessment (3), where applicable, has been conducted and based on its conclusions the necessary mitigation measures (4) are implemented. (…)'

Answer

In order to identify a biodiversity-sensitive area that meets the criteria of ESRS E4 Disclosure Requirement E4-5, it is sufficient that the area is listed in only one of the sources mentioned under the definition of biodiversity sensitive area in the ESRS Glossary of Terms (see background).

If the relevant site is not included under the Natura 2000 network of protected areas, UNESCO World Heritage sites and/or Key Biodiversity Areas ('KBAs'), the undertaking needs to assess if it falls under 'other protected areas,' as per the ESRS glossary definition. Other protected areas could be, for instance, national parks or areas lying within river basin districts designated as requiring special protection by national authorities. This may require consulting national legislation sources defining these other protected areas.