

Exposure Drafts ESRS Environment

EFRAG & DASB (RJ) Outreach Event

15 June 2022



ESRS E in the overall ESRS structure

CROSS-CUTTING STANDARDS

ESRS 1
General Principles

ESRS 2
General, strategy, governance and materiality
assessment disclosure requirements

ENVIRONMENT

ESRS E1
Climate change

ESRS E2
Pollution

ESRS E3
Water and marine
resources

ESRS E4
Biodiversity and
ecosystems

ESRS E5
Resource use and
circular economy

SOCIAL

ESRS S1
Own workforce

ESRS S2
Workers in the value
chain

ESRS S3
Affected communities

ESRS S4
Consumers and end-
users

GOVERNANCE

ESRS G1
Governance, risk management and internal controls

ESRS G2
Business conduct

APPENDICES

Appendix I
Navigating
the ESRS

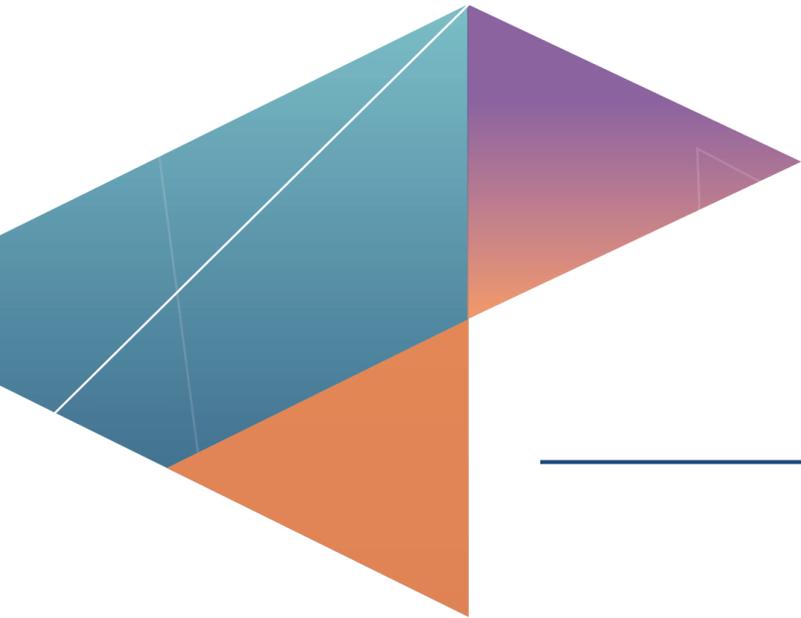
Appendix II
CSRD
Requirements

Appendix III
SFDR Adverse
Impacts in
the ESRS

Appendix IV
TCFD and
ESRS
reconciliation
table

Appendix V
IFRS S1+2 /
ESRS
reconciliation
table

Appendix VI
Acronyms and
glossary
terms



Environment: E1 Climate change

E1 Climate change: Disclosure Requirements Strategy, Governance and materiality assessment

ESRS E1 Disclosure Requirements (I/IV)

1 Disclosure Requirement related to Strategy, Governance and materiality assessment

- DR E1-1– Transition plan for climate change mitigation



- The company's plans to ensure that the business model is compatible with limiting global warming to 1.5°C in line with the Paris Agreement.

Application guidance related to ESRS 2

- AG on ESRS 2-SBM4: Resilience of strategy and business model



- AG on ESRS 2-GOV 4: Climate-related remuneration & Internal carbon pricing schemes



- AG on ESRS 2-IRO 1 and 2: material climate-related impacts, risks and opportunities



* Risks and opportunities only

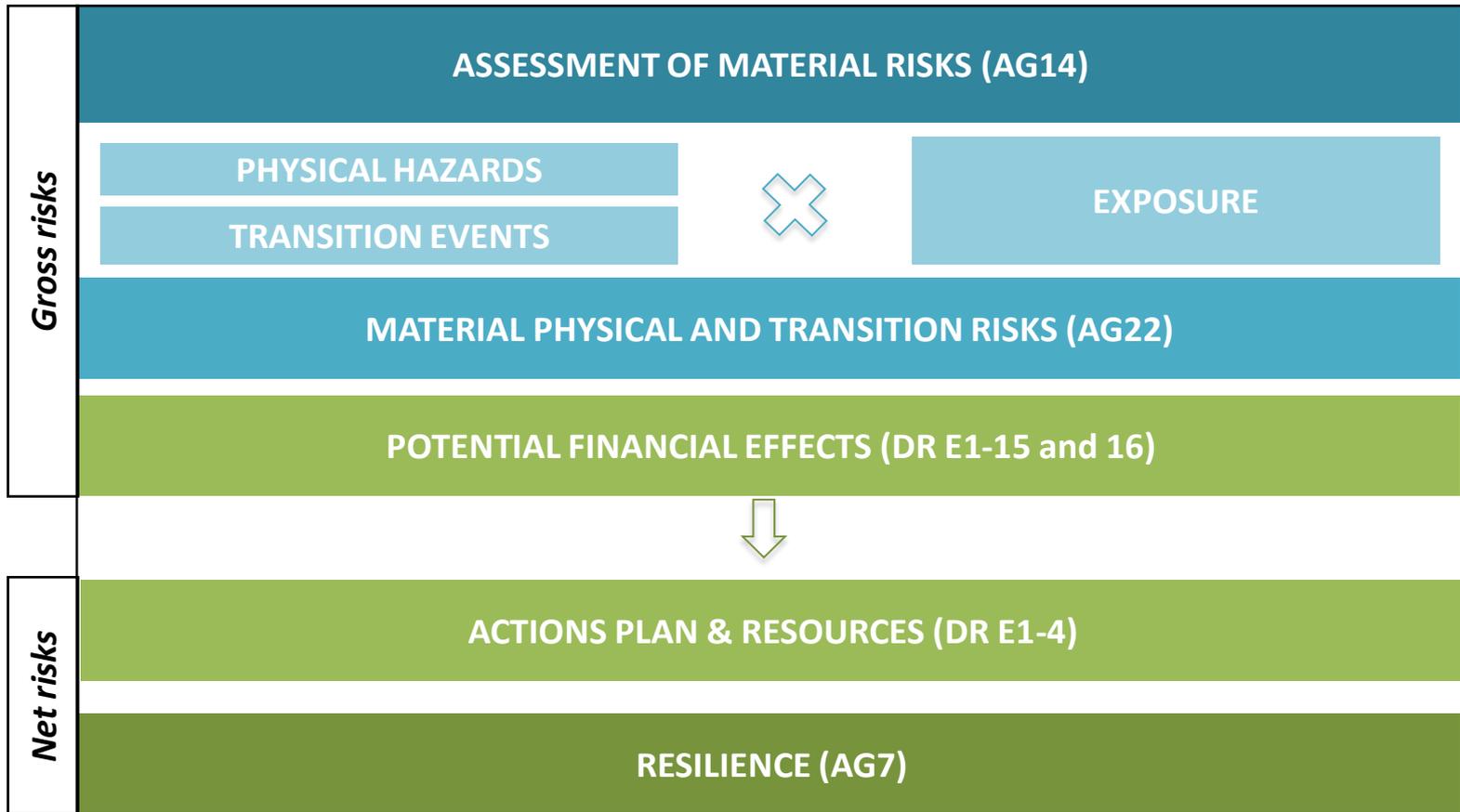
Information related to ESRS 2:

- Resilience of strategy and business model, complementing the mitigation transition plan.
- Incentive compensation schemes linked to climate objectives and elements on the incentive use of an internal carbon price (investment decisions, internal performance reviews, etc.).
- Description of climate-related impacts, risks and opportunities in relation to the TCFD and the physical risks of the Taxonomy, and the process for identifying these. Also includes information to be published on scenario analysis with the use of a 1.5°C scenario for transition risks and a high scenario for physical risks.

E1 Climate change: Disclosure Requirements Strategy, Governance and materiality assessment

FOCUS

ESRS E1 – Focus on Gross VS Net risks



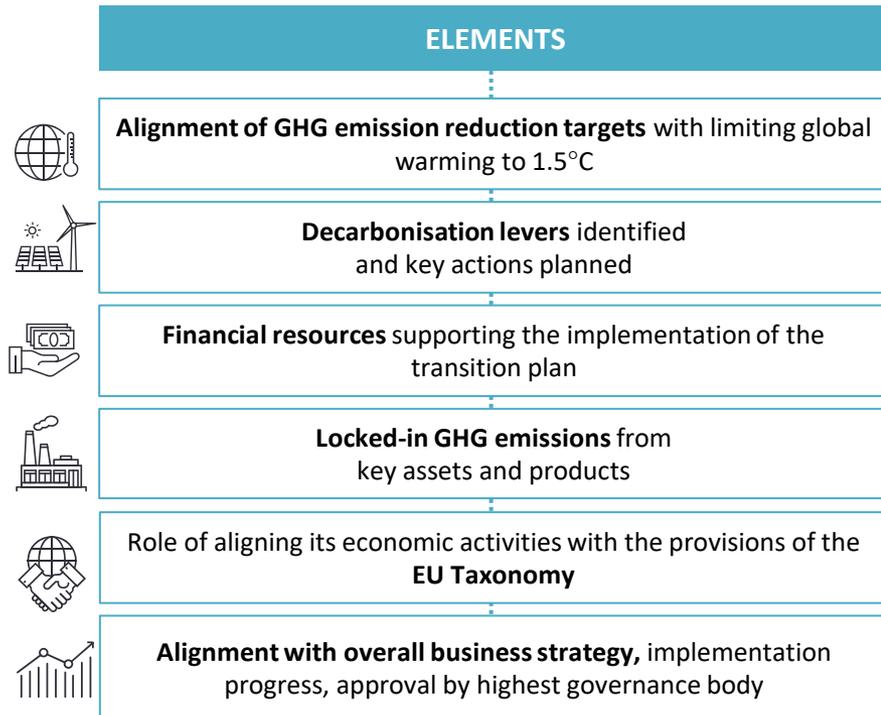
E1 Climate change: Disclosure Requirements

Strategy, Governance and materiality assessment

FOCUS

ESRS E1 – Focus on Transition Plan

DR E1-1 Transition plan for climate change mitigation



“...the undertaking is expected to provide a high-level explanation on how it will adjust its strategy and business model to ensure compatibility with the transition to a climate-neutral economy and with limiting of global warming to 1.5°C in line with the Paris Agreement ... and shall, where applicable, refer to and contextualise information presented under other disclosures requirements of this [draft] standard.”

E1 Climate change: Disclosure Requirements

Policies, targets, action plans and resources

ESRS E1 Disclosure Requirements (II/IV)

3 Disclosure Requirements related to Policies, targets, action plans and resources

- **DR E1-2 – Policies** implemented to manage climate change mitigation and adaptation CSRD
- **DR E1-3 – Measurable targets** for climate change mitigation and adaptation CSRD ISSB US SEC
- **DR E1-4 – Climate change mitigation and adaptation action plans and resources** CSRD* ISSB* Taxo*

Information to be published in relation to the Disclosure Principles (ESRS 1):

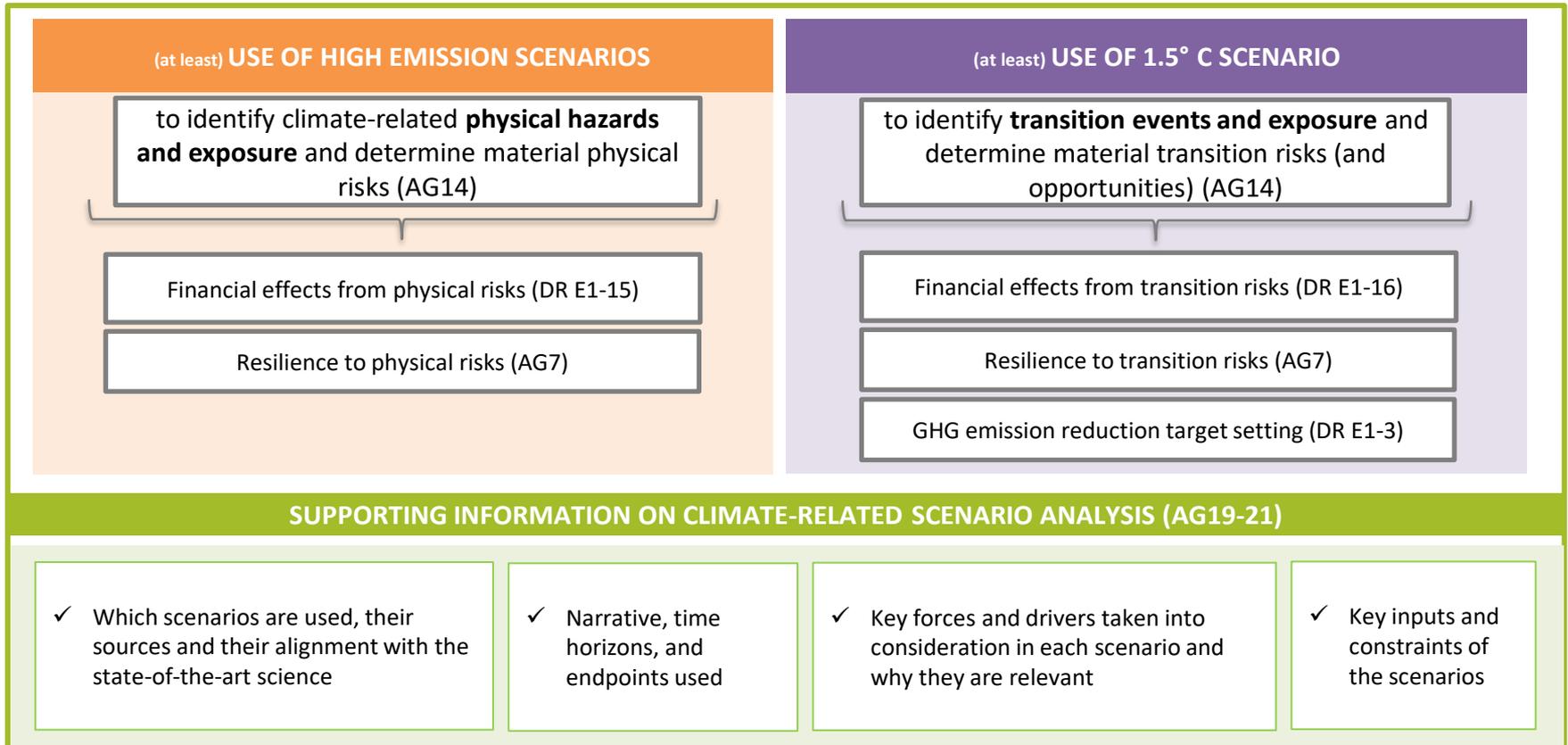
- Policies to manage GHG emissions, physical and transition risks and opportunities.
- Targets, including for reducing GHG emissions. Additional information to be provided if a net-zero target (including removals) or carbon neutrality (including carbon credits) is claimed.
- Action plan and resources to implement policies and achieve targets.

E1 Climate change: Disclosure Requirements

Policies, targets, action plans and resources

FOCUS

ESRS E1 – Focus on Scenario Analysis



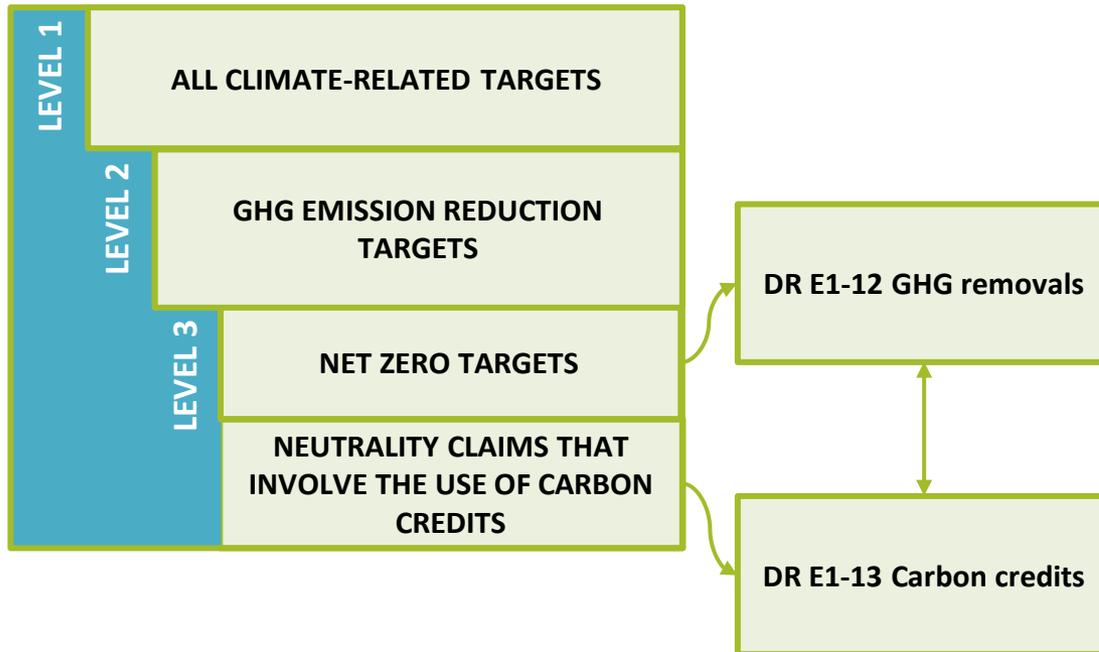
E1 Climate change: Disclosure Requirements

Policies, targets, action plans and resources

FOCUS

ESRS E1 - Focus on targets

“The undertaking shall disclose the climate-related targets it has adopted.”



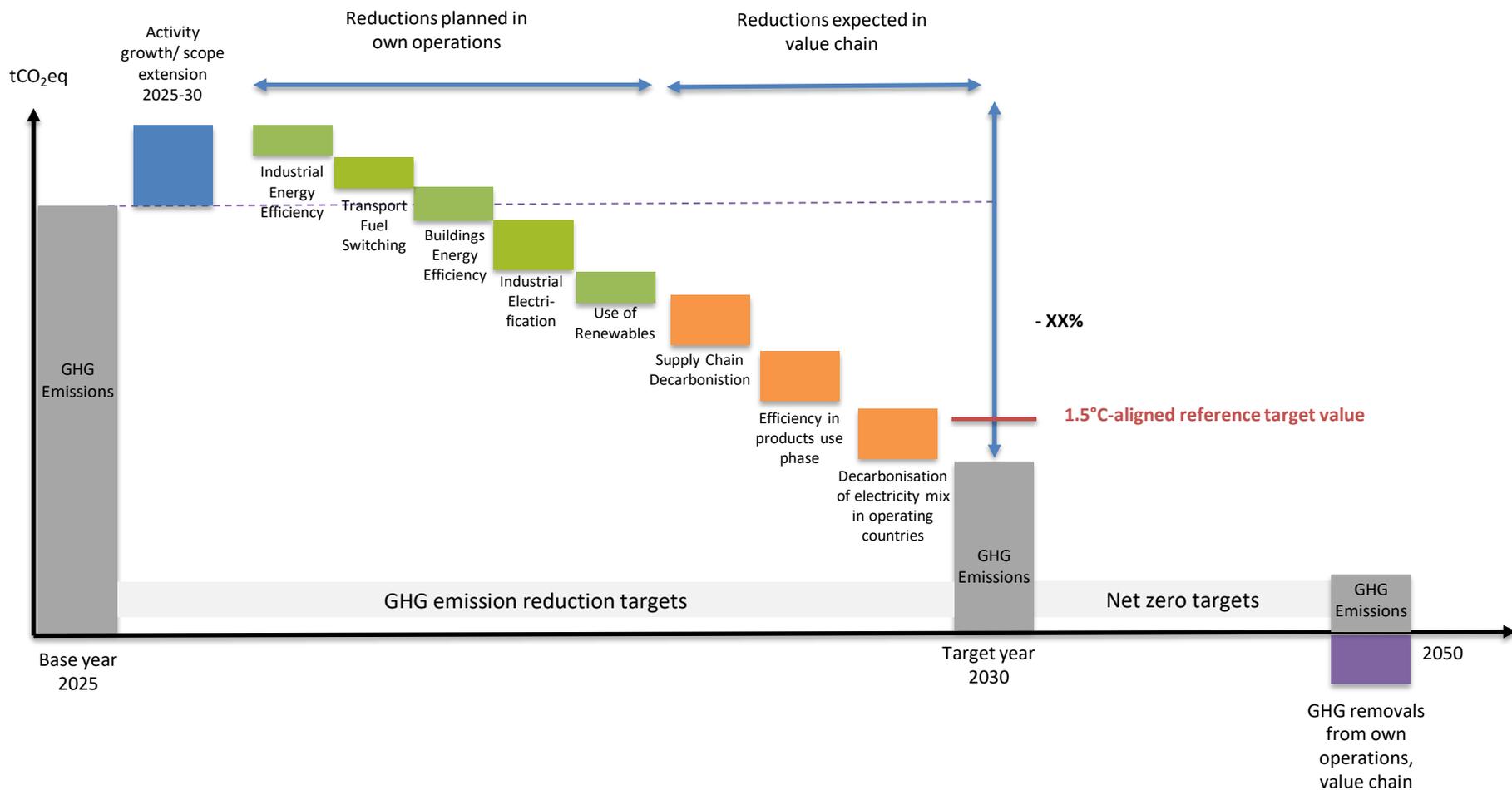
Reporting on GHG emission reduction targets:

- Absolute targets
- Scope 1, 2 and 3
- No netting of emissions to claim target achievement
- From 2025 in 5-year rolling periods
- Science-based?
- Decarbonization levers to achieve targets

E1 Climate change: Disclosure Requirements

Policies, targets, action plans and resources

ESRS E1 Graphical pathway of GHG targets



E1 Climate change: Disclosure Requirements

Performance measures

ESRS E1 Disclosure Requirements (III/IV)

13 Disclosure Requirements related to performance measures 1/2

Energy

DR E1-5: Energy consumption & mix SFDR

DR E1-6: Energy intensity per revenue SFDR

GHG emissions / removals

DR E1-7: Scope 1 GHG emissions SFDR ISSB US SEC

DR E1-8: Scope 2 GHG emissions SFDR ISSB US SEC

DR E1-9: Scope 3 GHG emissions SFDR ISSB US SEC

DR E1-10: Total GHG emissions

DR E1-11: GHG intensity per net turn SFDR ISSB US SEC

DR E1-12: GHG removals CSRD*

DR E1-13: Carbon credits CSRD* ISSB US SEC

Optional DR E1-14: Avoided GHG emissions from products and services

* in recital 41

- The information on energy consumption makes it possible to assess the company's absolute consumption, its evolution and the share of renewable energy.
- Intensity information meets the requirements of the SFDR.
- Publication of GHG emissions: Scopes 1, 2, 3 and Total. For Scope 3, selection from the 15 most significant GHG Protocol categories.
- Scope 3: calculation updated every 3 years, published annually.
- Distinction between "Removals" = actions to permanently reduce GHGs from the atmosphere within the value chain and "carbon credits" = financing outside the value chain by purchasing credits.
- Optionality of avoided emissions - lack of maturity and consensus on calculation methods.

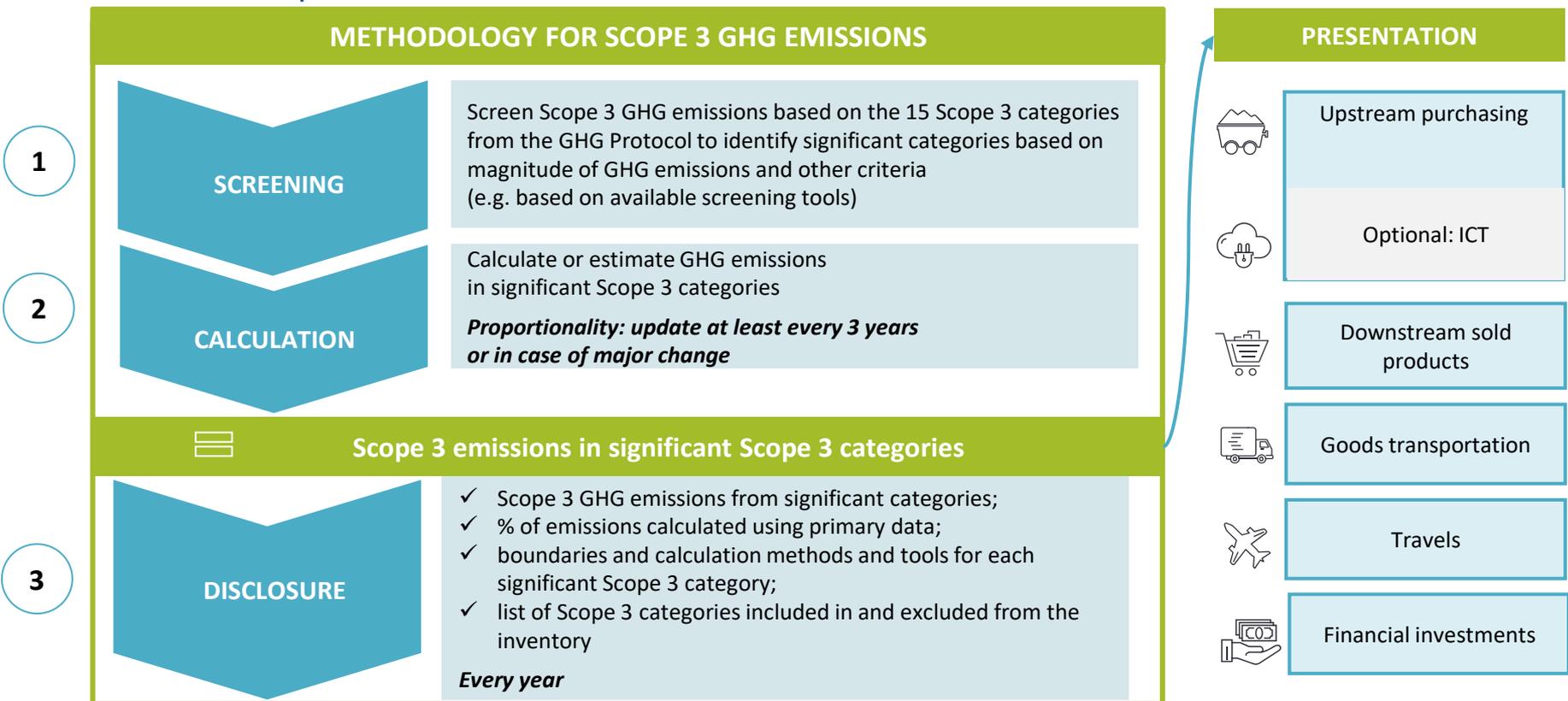
E1 Climate change: Disclosure Requirements

Performance measures

FOCUS

ESRS E1 – Focus on GHG Scope 3 methodology

DR E1-9 Scope 3 GHG emissions



E1 Climate change: Disclosure Requirements

Performance measures

ESRS E1 Disclosure Requirements (IV/IV)

13 Disclosure Requirements related to performance measures 2/2

Financial effects

DR E1-15: Financial effects from **physical risks** ISSB US SEC

DR E1-16: Financial effects from **transition risks** ISSB US SEC

DR E1-17: Financial effect from **opportunities** Taxo* ISSB US SEC

Taxonomy Regulation

** indirect link

Information on potential financial effects:

- Assets exposed to physical/transitional risks (value and %), share covered by adaptation plans.
- Possible future liabilities: ETS regulated installations, emission monetisation, etc.
- Share of turnover exposed to physical / transition risks.
- Financial effects of climate change opportunities (turnover, cost reduction).

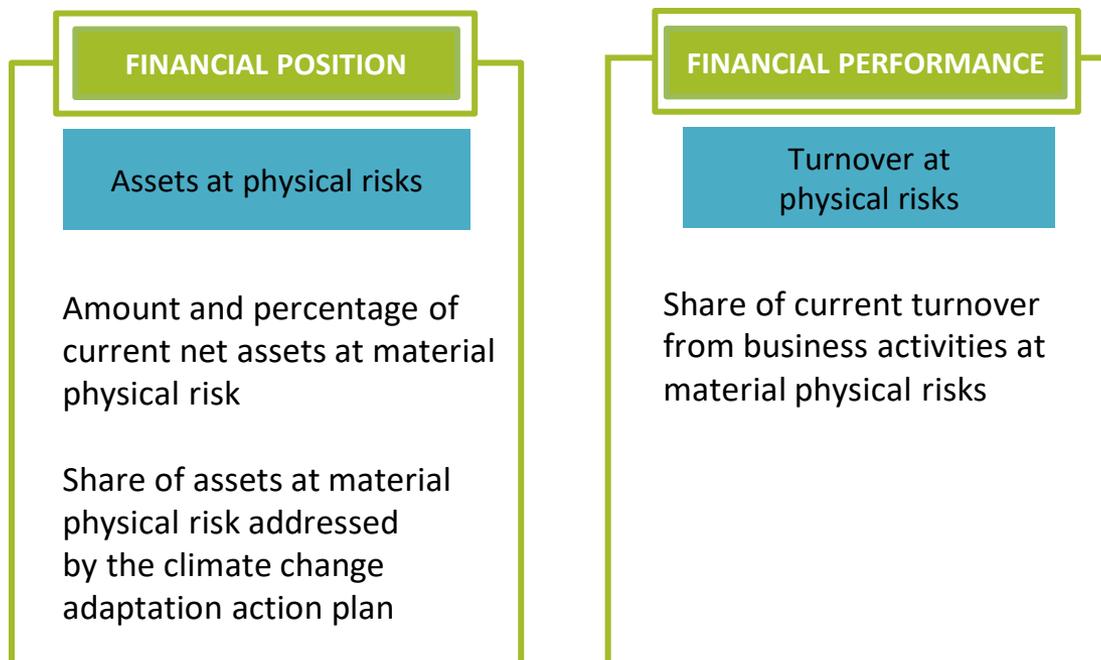
E1 Climate change: Disclosure Requirements

Performance measures

FOCUS

ESRS E1 – Focus on financial effects

DR E1-15 – Potential financial effects from material physical risks



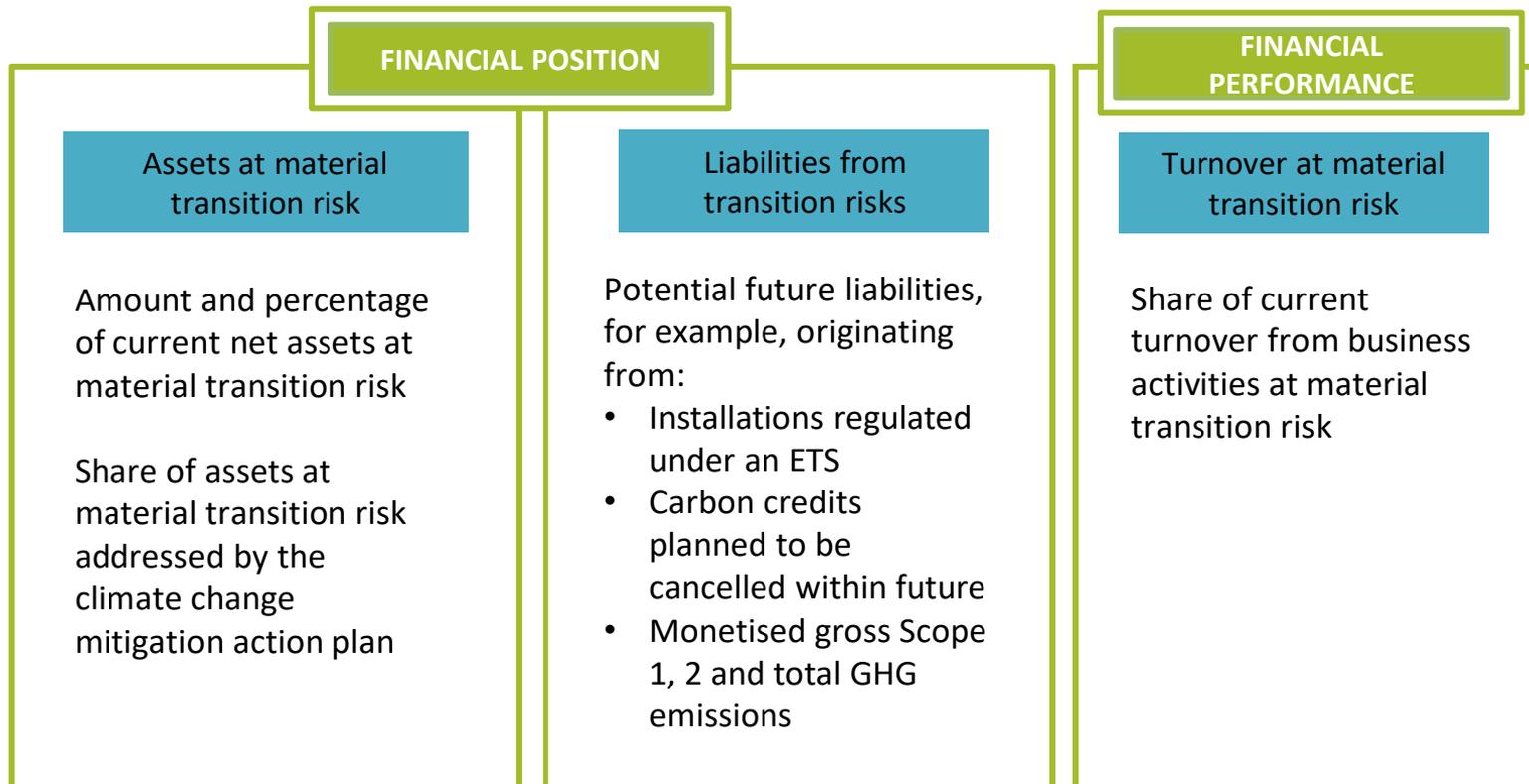
E1 Climate change: Disclosure Requirements

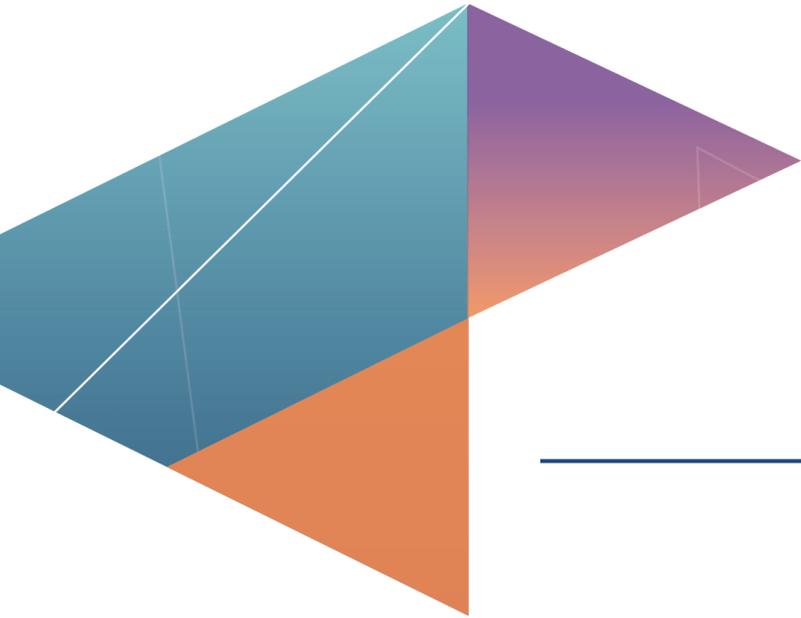
Performance measures

FOCUS

ESRS E1 - Focus on financial effects

DR E1-16 – Potential financial effects from material transition risks





Environment:

E2 Pollution

E2 Pollution: Objective

To specify disclosure requirements which will enable users of the sustainability statements to understand material impacts, actions taken, results of such actions, material risks and opportunities related to pollution.

- **Pollution and prevention, control and reduction**
 - of air– emissions into air (both indoor and outdoor)
 - of water (including groundwater)
 - of soil (at production site, outside, through use of undertaking’s products and services)
- **Production, use and/or distribution and commercialisation of**
 - Substances of concerns (having a chronic effect for human health or the environment or substances which hamper recycling for safe and high quality secondary raw materials)
 - Most harmful substances (listed in the EU Chemicals Strategy for Sustainability)
- **Enabling activities** in support of prevention, control and elimination of pollution (four remaining environmental objectives of the EU Taxonomy Regulation)

E2 Pollution: Overview (I/III)

Application guidance related to ESRS 2

- **AG on ESRS 2-SBM 4: Resilience** of strategy and business model
 - TCFD
 - CSRD
 - ZPAP
- **AG on ESRS 2-IRO 1 and 2: material pollution-related impacts, risks and opportunities**
 - TCFD
 - CSRD
 - OEI

- Link to the EU Action Plan initiative "Towards a Zero Pollution for Air, Water and Soil", and value chain consideration.
- Five sub-themes: air pollution, water pollution, soil pollution, substances of concern (including the most harmful substances) and enabling activities to prevent, control and eliminate pollution.
- Link to the definitions of the Chemicals Strategy for Sustainability, the EU REACH Regulation, the E-PRTR (European Pollutant Release and Transfer Register), the Industrial Emissions Directive and the work of the Sustainable Finance Platform.

3 Disclosure Requirements related to Policies, targets, action plans and resources

- **DR E2-1** – Policies implemented to prevent and control pollution
 - CSRD
 - Sev. III
- **DR E2-2** – Measurable targets for pollution
 - ZPAP
 - Taxo
 - CSRD
 - IED
 - GRI
- **DR E2-3** – Pollution action plans and resources
 - CSRD
 - GRI
 - IED
 - Taxo

- Policies should pursue an objective (prevention, minimisation, etc.) related to one of the five sub-themes.
- Targets should be expressed in terms of the volume of pollutants concerned, as well as in terms of turnover and raw material costs for substances of concern, and the link should be made with the BAT benchmarks.
- The actions serve the objectives in line with the regulations.

E2 Pollution: Overview (II/III)

4 Disclosure Requirements related to performance measurement

- **DR E2-4** – Pollution to air, water and soil SFDR CSRD
IED GRI
- **DR E2-5** – Substances of concern and most harmful substances CSRD
Taxo ZPAP
- **DR E2-6** – Pollution-related incidents and deposit impacts and risks, and financial exposure to the undertaking CSRD
- **DR E2-7** – Potential financial effects from pollution-related impacts, risks and opportunities CSRD
- **Taxonomy Regulation**

Pollution to air, water and soil

- Information on the list and volumes of air, water and soil pollutants generated or used throughout the value chain, as well as the area affected where relevant (including Annex II E-PRTR).
- Link to degree of urbanisation and air quality indicators, as well as to the EU Industrial Emissions Directive and BAT/BREFs where relevant.

Substances of concern

- Specific information on the share of turnover and raw material costs related to these substances.

Incidents and deposits

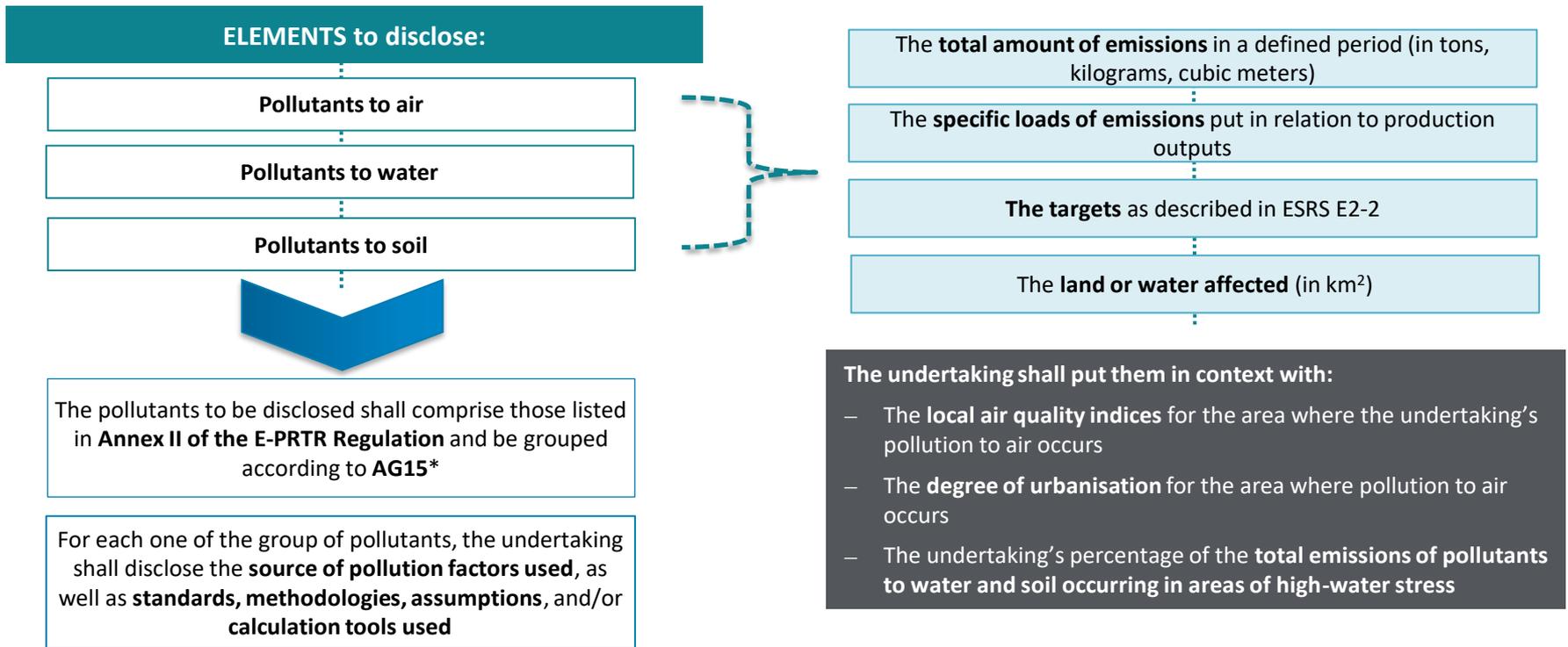
- Information on the main incidents and deposits, their impacts as well as their associated and provisioned costs.

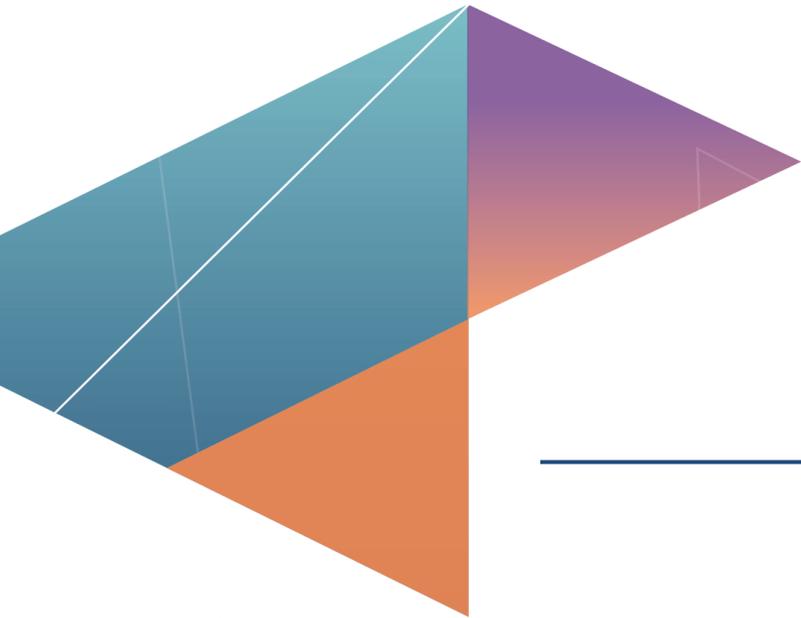
SFDR

Link to additional indicators SFDR on Emissions of inorganic pollutants, air pollutants and ozone-depleting substances.

E2 Pollution: Overview (III/III)

“The undertaking shall disclose the list of pollutants that are generated or used during production processes or that are procured, and that leave its facilities as emissions, as products, or as part of products or services.”





Environment:

E3 Water and marine resources

E3 Water and marine resources: Objective

To specify disclosure requirements to enable users of the sustainability statements to understand material impacts, actions taken, results of such actions, material risks and opportunities related to water and marine resources

Water

- Undertaking's relationship with **water in its upstream and downstream value chain**, in terms of dependencies, impacts, risks and opportunities and how it effectively addresses these issues
- Where and how much **water is withdrawn, consumed and discharged** for the undertaking's activities, products and services
- What are the **water-related impacts** caused or contributed to by the undertaking
- How the undertaking is exposed to **water-related risks** (flood risks, water scarcity risks, etc)

Marine resources

- Undertaking's activities which cause or contribute to impacts either through the **use of ocean-based resources, discharges and emissions to the environment** which end up in the oceans, or **activities** located in maritime (naval matters) areas

E3 Water and marine resources: Overview (I/III)

Application guidance related to ESRS 2

AG on ESRS 2-IRO 1 and 2: Water and marine resources-related **impacts, risks and opportunities**

- CSRD
- GRI
- CDSB
- CDP W
- CEO W

- Water and marine resources sub-themes, covering the impacts and dependencies of water abstraction, consumption and discharge, including exposure to physical hazards (flooding, water stress, etc.).
- Link with the Water Framework Directive and the EU Marine Strategy Framework Directive.
- Water is a local issue: criticality of geographical sites, hydrological basins.
- Importance of raw materials and consideration of suppliers.
- Marine resources: consideration of deep-sea mineral resources, gravel and seafood.

3 Disclosure Requirements related to Policies, targets, action plans and resources

DR E3-1: Policies implemented to manage water and marine resources

- CSRD
- SFDR
- GRI
- CDSB

DR E3-2: Measurable **targets** for water and marine resources

- CSRD
- GRI
- CEO W
- CDP W
- CDSB
- F Mer

DR E3-3: Water and marine **action plans and resources**

- CSRD
- CDSB

- Value chain and link to EU policies and quantified commitments to reduce water abstraction, consumption and discharge.

E3 Water and marine resources: Overview (II/III)

FOCUS

The process of identifying **material IROs** should include:

- Geographical areas with water-related quality, quantity, regulatory or reputational issues for its facilities and for the facilities of key suppliers
- Commodities used by the undertaking which have an impact on the environmental status of marine waters as well as on the protection of marine resources
- Business activities for which water issues and access to commodities represent a material risk
- Sites located in **areas of high-water stress**
- Processes to identify suppliers in the value chain with material water quantity or water quality related impacts or risks
- Processes to conduct an assessment of key suppliers
- Processes to screen marine resource-related commodities in its purchases



Outcomes:

- A list of geographical areas where water is a material issue for the undertaking's operations and value chain
- A list of commodities used by the undertaking which are material to the good environmental status of marine waters as well as for the protection of marine resources
- A list of business activities associated to water and marine resources material IROs

Recommended databases: WWF Water Risk Filter, World Resources Institute's (WRI) Water Risk Atlas tool Aqueduct, annex II to EU Recommendation 2021/2279 on the use of the Environmental Footprint methods.

E3 Water and marine resources: Overview (III/III)

4 Disclosure Requirements related to performance measurement

DR E3-4: Water management performance



DR E3-5: Water intensity performance



DR E3-6: Marine resources-related performance



DR E3-7: Potential financial effects from water and marine resources-related impacts, risks and opportunities

Taxonomy regulation

Water

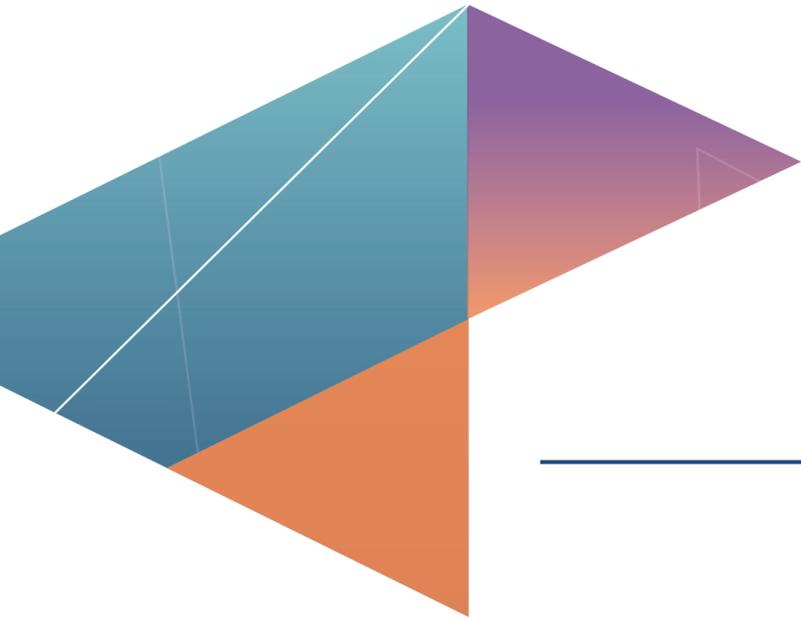
- Volumes of water abstracted, consumed, discharged and link to ESRS E2.
- If relevant, volume of water recycled, reused or stored.
- If relevant, information on intensity.
- Information by geographical area and business segment.

Marine resources

- Nature and quantity of materials used from marine resources.
- Links with ESRS E5 on waste and plastic use, ESRS E2 on pollutants, ESRS E1 on GHG emissions, ESRS E4 on impacting land use or settlement changes.

SFDR

Link to SFDR principal indicator on Emissions to water and additional indicators on Water usage and recycling, Investments in companies without water management policies and Exposure to areas of high-water stress.



Environment:

E4 Biodiversity and ecosystems

E4 Biodiversity and ecosystems: Objective

To specify disclosure requirements to enable users of the sustainability statements to understand material impacts, actions taken, results of such actions, material risks and opportunities related to biodiversity and ecosystems

- Undertaking's **relationship to terrestrial, freshwater and marine habitats, ecosystems and populations of related fauna and flora species**, including diversity within species, between species and of ecosystems and their interrelation with many indigenous and local communities
- 'Biological diversity' covers the variability among living organisms from all sources including, inter alia, terrestrial, freshwater, marine and other aquatic ecosystems and the ecological complexes of which they are part of

E4 Biodiversity and ecosystems: Overview (I/III)

1 Disclosure Requirement related to Strategy, Governance and materiality assessment

- **DR E4-1** – Transition plan in line with the targets of no net loss by 2030, net gain from 2030 and full recovery by 2050

TNFD

- Information on the compatibility of the business model with the EU Biodiversity Strategy 2030 and the Post-2020 Global Biodiversity Framework.
- Identification of biodiversity loss levers (threatened species, protected areas and key areas) in the value chain and remediation actions (avoid, minimise, restore, compensate) on the main resources/dependencies and assets concerned.

Application guidance related to ESRS 2

- **AG on ESRS 2-SBM 4: Resilience** of strategy and business model

CSRD

TNFD

- **AG on ESRS 2-IRO 1 and 2: Biodiversity and ecosystems - related impacts, risks and opportunities**

CSRD

SFDR

TNFD

Resilience : advocating the use of scenarios (e.g. IPBES, ENCORE, etc.).

Materiality assessment :

- Advocacy of databases, assessment by geographical location and by commodity, consideration of threatened species, protected areas and key zones.
- Distinction between physical, transition and systemic risks, as well as opportunities in relation to TNFD and CDSB work.
- Presence of activity in biodiversity hotspots.

E4 Biodiversity and ecosystems: Overview (II/III)

3 Disclosure Requirements related to Policies, targets, action plans and resources

- **DR E4-2 – Policies** implemented to manage biodiversity and ecosystems **SFDR**
- **DR E4-3 –** Measurable targets for biodiversity and ecosystems
- **DR E4-4 –** Biodiversity and ecosystems action plans and resources

- Information in relation to the transition plan, as well as the hierarchy of levers: avoid, minimise, restore, compensate, and mitigate.
- Key role of the value chain, traceability of raw materials and suppliers, and importance of social issues of IROs including in relation to the use of genetic resources and interaction with local communities.

6 Disclosure Requirements related to performance measurement

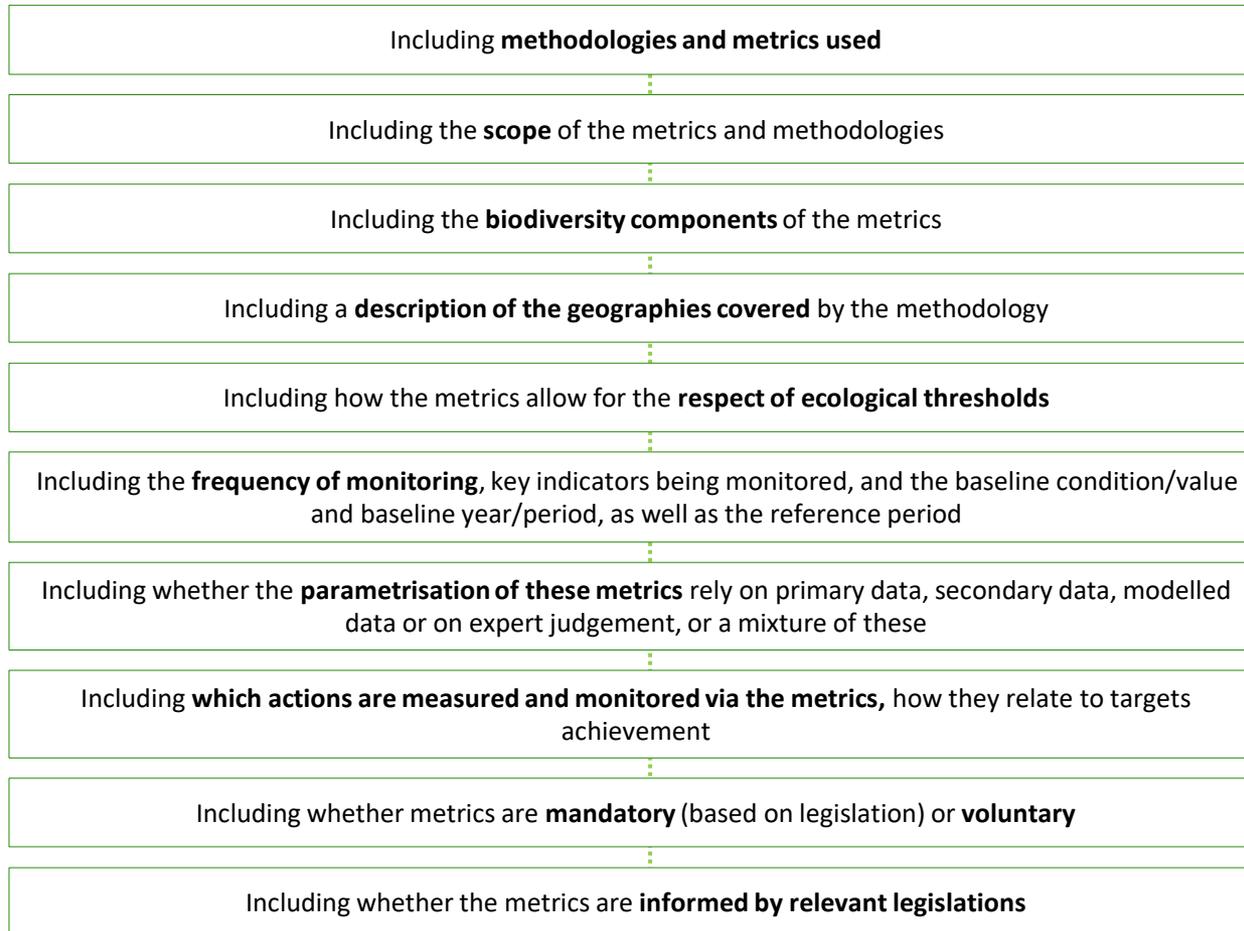
- DR E4-5 –** Pressure metrics
- DR E4-6 –** Impact metrics
- DR E4-7 –** Response metrics
- DR E4-8 –** Biodiversity-friendly consumption and production metrics
- DR E4-9 –** Biodiversity offsets
- DR E4-10 –** Potential financial effects from biodiversity-related impacts, risks and opportunities
- Taxonomy Regulation**

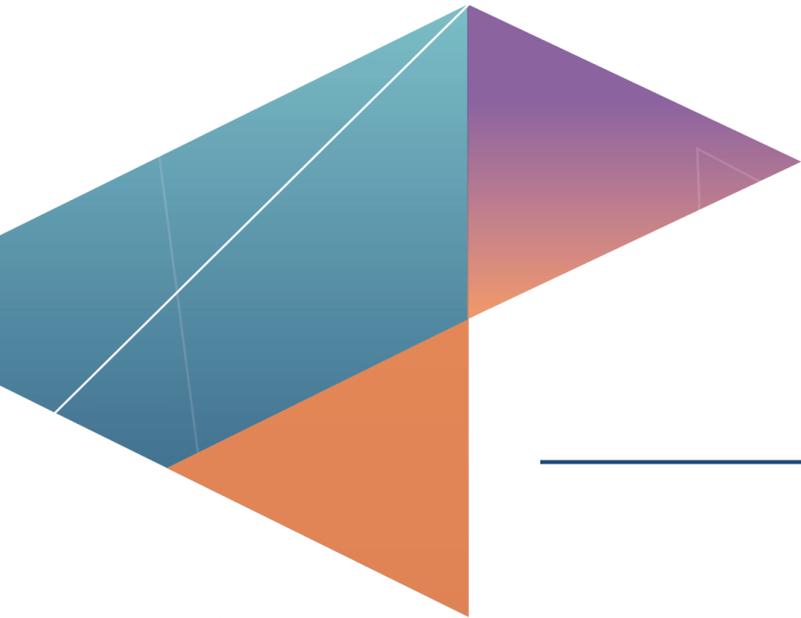
- Very basic indicators, in line with ongoing work at international level and the lack of agreed indicators, description of characteristics that indicators should have.

SFDR

Link to SFDR principal indicator on Activities negatively affecting biodiversity-sensitive areas and additional indicators on Land degradation, desertification, soil sealing, Investments in companies without sustainable land/agriculture practices, Investments in companies without sustainable oceans / seas practices, Natural species and protected areas and Deforestation.

E4 Biodiversity and ecosystems: Overview (III/III)





Environment:

E5 Resource use and circular economy

E5 Resource use and circular economy

To specify disclosure requirements to enable users of the sustainability statements to understand material impacts, actions taken, results of such actions, material risks and opportunities related to resource use and circular economy

- Circular economy is a restorative system in which **waste and pollution are eliminated and resource use is minimised** through systemic **design, maintaining and improving the value of products and components** and achieving a **circular flow of resources**, while regenerating natural ecosystems
- The goal is to **retain the value of the resources, products and materials** by creating a system with innovative business models that allow for renewability, long life optimal use or re-use, refurbishment, remanufacturing, recycling and biodegradation.
- A circular economy is based on three principles, driven by design: **eliminate waste and pollution, keep products and materials in use at their highest value** and **regenerate ecosystems**. It is underpinned by a transition to renewable energy.
- **Decoupling economic activity from extraction of natural resources** can take place through the implementation of circular strategies to prevent natural resources extraction and intensify circular material use.

E5 Resource use and circular economy: Overview (I/II)

Application guidance related to ESRS 2

- **AG on ESRS 2 SBM 3 and SBM 4** on the integration of resource use and circular economy in the business model
- **AG on ESRS 2-IRO 1 and 2:** on impacts, risks and opportunities

- Link with the European plan on the circular economy.
- Integration of **circular economy principles** in the business model: **elimination of waste and pollution**, circularity of products, **regeneration of nature**, decoupling of economic activity from natural resource extraction, **products and materials maintained at their highest value.**
- Materiality assessment in relation to the **five sub-themes described** in E5-4 to E5-8 in relation to the scenarios of remaining in a linear economy versus making a transition to a circular economy.

3 Disclosure Requirements related to Policies, targets, action plans and resources

- **DR E5-1 – Policies** implemented to manage resource use and circular economy
- **DR E5-2 – Measurable targets** for resource use and circular economy
- **DR E5-3 – Resource use and circular economy action plans**

- Policies to decouple activity and use of non-renewable resources / regenerate renewable resources and ecosystems.
- Action plans related to the sub-themes and the three principles of the circular economy.

E5 Resource use and circular economy: Overview (II/II)

6 Disclosure Requirements related to performance measurement

- **DR E5-4** – Resource inflows
- **DR E5-5** – Resource outflows
- **DR E5-6** – Waste SFDR
- **DR E5-7** – Resource use optimisation
- **DR E5-8** – Circularity support

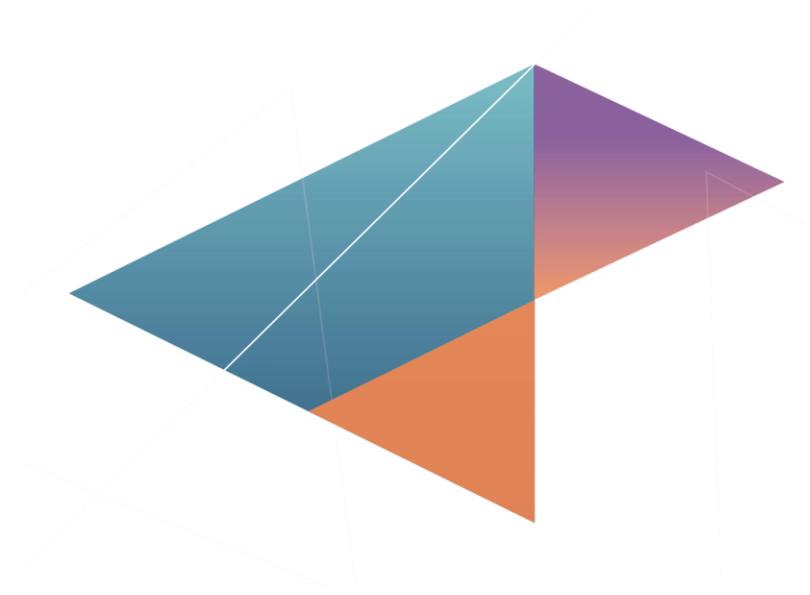
- **DR E5-9** – Financial effects from resource use and circular-economy-related impacts, risks and opportunities
- **Taxonomy Regulation**

SFDR

Link to SFDR principal indicator on Hazardous waste and radioactive waste ratio and additional indicator on Non-recycled waste ratio.

Information on the **five sub-themes**:

- quantitative (absolute value et percentage) et qualitative.
- **Resource Inflows**: information on the materials used (renewable, reused, recycled).
- **Resource Outflows**: information on the weight and percentage of products, materials and packaging intentionally created to contribute to the circular economy, i.e. sustainability, reusability, reparability, disassembly, recycling, etc.
- **Waste**: details of hazardous/non-hazardous waste and waste destination.
- **Resource use optimisation**: share of turnover for products and services that optimise the use of resources and promote circular business models.
- **Circularity support**: coordinated actions and partnerships in the value chain.



Polling questions to the audience

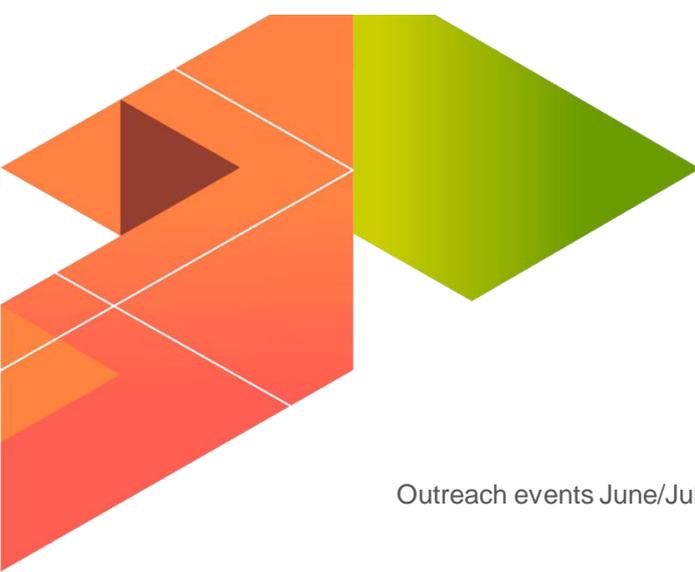
Join at
slido.com
#2233 9900



www.Slido.com
[Presentation link](#)



EFRAG is co-funded by the European Union and EEA and EFTA countries. The contents of EFRAG's work and the views and positions expressed are however the sole responsibility of EFRAG and do not necessarily reflect those of the European Union or the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA). Neither the European Union nor DG FISMA can be held responsible for them.



EFRAG
Aisbl - ivzw
35 Square de Meeüs
B-1000 Brussel
Tel. +32 (0)2 207 93 00
www.efrag.org

