

[Draft] European Sustainability Reporting Standard E5 Resource Use and Circular Economy

[DISCLAIMER]

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This working paper should therefore not be interpreted in any way whatsoever as representing the views of the PTF-ESRS as a whole at this stage, nor the position of relevant co-construction partners. Also, the content of this working paper is the sole responsibility of the PTF-ESRS and can under no circumstances be regarded as reflecting the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA).

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Objective

- 1 The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:
 - (a) the impact of the undertaking on resource use considering the depletion of non-renewable resources and the regeneration of renewable resources and its past, current and future measures to decouple its growth from extraction of natural resources;
 - (b) the plans and capacity of the undertaking to adapt its business model and operations in line with circular economy principles including the elimination of waste, the circulation of products and materials at their highest value, and the nature's regeneration;
 - (c) the type and extent of risks and opportunities arising from the resources use and the transition to a circular economy including potential negative externalities;
 - (d) the effects of circular economy-related risks and opportunities on the undertaking's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value in.
- 2 This standard derives from the (draft) CSRD stating that the sustainability reporting standards shall specify information to disclose about 'resource use and circular economy'.
- 3 This standard also builds on existing EU legislative frameworks and policies which are referred to in this standard: the EU Green Deal, the EU Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy regulation, EU Circular Economy Action Plan¹ and the EU industrial strategy.
- 4 This standard covers Disclosure Requirements developed primarily from the perspective and for the reporting purpose of non-financial undertakings². However financial undertakings shall apply this standard in relation to their own operations and value chain, it being understood that they are in addition subject to specific regulatory and other sector-specific Disclosure Requirements.
- 5 This standard sets out Disclosure Requirements related to 'resource use' and 'circular economy'.
- 6 'Resource use' covers Disclosure Requirements related to the undertaking's resource inflows, resource outflows and waste and emissions.
- 7 'Circular economy' covers Disclosure Requirements related to the undertaking's circular enablers and resource value strategy

Interactions with other ESRS

- 8 Specific aspects related to Pollution are addressed in ESRS E2, climate change mitigation and adaptation matters are addressed in ESRS E1, Biodiversity and ecosystems matters are addressed in ESRS E4 and Water and marine resources matters are addressed in ESRS E3. Circular economy is a system that tends to a sustainable production and consumption. In doing so, the system brings multiple environmental benefits, in particular, the reduction of energy consumption and emissions into the air (carbon emission or other pollution), the limitation of water withdrawals and discharges and the regeneration of the nature limiting the impact on biodiversity.
- 9 The contents of this standard on Strategy and business model, Governance and organisation and Impacts, risks and opportunities, as well as Policies, targets, action plans and resources shall be read in conjunction respectively with cross-cutting standards ESRS 2, ESRS 3, ESRS 4 and cross-cutting reference standard ESRS 5.

¹ https://ec.europa.eu/environment/strategy/circular-economy-action-plan_en

² A non-financial undertaking means an undertaking that is subject to the disclosure obligations laid down in Articles 19a and 29a of Directive 2013/34/EU and is not a financial undertaking, i.e. an asset manager, a credit institution as defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the European Parliament and of the Council²², an investment firm as defined in Article 4(1), point (2), of Regulation (EU) No 575/2013, an insurance undertaking as defined in Article 13, point (1), of Directive 2009/138/EC of the European Parliament and of the Council²³, or a reinsurance undertaking as defined in Article 13, point (4) of Directive 2009/138/EC [Disclosures Delegated Act of the (EU) 2020/852 Regulation, commonly referred to as the EU Taxonomy

- 10 This standard covers sector-agnostic Disclosure Requirements. Sector-specific Disclosure Requirements are developed separately and in accordance with the classification following ESRS SEC 1.

Disclosure Requirements

Strategy and business model, governance and organisation, Impacts, risks and opportunities

- 11 The Disclosure Requirements related to Resource Use and Circular Economy and to (i) Strategy and business model, (ii) Governance and organisation, and (iii) Impacts, risks and opportunities are defined below.
- 12 The specific circular economy-related Disclosure Requirements hereafter (Disclosure Requirements 1 to 3) shall be read as complementary to the relevant cross-cutting standards (ESRS 2, ESRS 3 and ESRS 4) and they are to be reported upon by the undertaking under the related cross-cutting standards. The information to be covered by Disclosure Requirements 1 to 3 are those that due to their importance to the undertaking are prioritised and monitored directly by the undertaking's highest governing bodies.
- 13 With regards to the circular economy-related Disclosure Requirements in ESRS 2 Strategy and business model, this topical standard includes one specific Disclosure Requirement. Disclosure Requirement 1 covers the integration of resource use and circular economy key levers in the business model.
- 14 With regards to the circular economy-related Disclosure Requirements in ESRS 4 on Impacts, risks and opportunities, this topical standard includes two specific Disclosure Requirements. Disclosure Requirement 2 covers Processes to identify resource use and circular economy-related impacts, risks and opportunities and Disclosure Requirement 3 covers Resource use and circular economy-related impacts, risks and opportunities.

Specific circular economy-related disclosures for the implementation of ESRS 2 Strategy and business model

[Disclosure Requirement 1] Resource use and circular economy integration in the business model

- 15 **The undertaking shall disclose a description of the alignment of the strategy and business model with circular economy principles and how the undertaking is decoupling the economic activity from extraction of natural resources.**
- 16 The principle to be followed under this Disclosure Requirement is to provide an understanding of the plan of the undertaking to move from a linear to a circular economy in accordance with the Disclosure Requirements 7 and 8 under ESRS 2.
- 17 The disclosure required by paragraph 15 shall include:
 - (a) by reference to the resource use and circular economy targets, an explanation of the levers identified and key actions planned to move from a linear to circular business model;
 - (b) an explanation of how the plan is embedded in and aligned with the overall business strategy;
 - (c) an explanation of the progress made in retaining the resource, the product and material at their highest value.

Specific resource use and circular economy-related disclosures for the implementation of ESRS 4 Impacts, Risks and Opportunities

[Disclosure Requirement 2] Processes to identify resource use and circular economy-related impacts, risks and opportunities

- 18 The undertaking shall disclose its processes to identify and assess its:
- (a) resource use and circular economy-related impacts;
 - (b) resource use and circular economy-related risks; and
 - (c) resource use and circular economy-related opportunities.
- 19 The disclosure required by paragraph [18] shall include a description of the processes to identify those impacts, risks and opportunities that due to their importance for the undertaking are prioritised and monitored directly by the undertaking's highest governing bodies. It shall be disclosed in accordance with ESRS 4, Disclosure Requirement 1.

[Disclosure Requirement 3] Resource use and circular economy-related impacts, risks and opportunities

- 20 The undertaking shall disclose a description of its:
- (a) resource use and circular economy-related impacts;
 - (b) resource use and circular economy-related risks; and
 - (c) resource use and circular economy-related opportunities.
- 21 The principle to be followed under this Disclosure Requirement is to provide an understanding of the resource use and circular economy-related impacts, risks and opportunities that due to their importance to the undertaking are prioritised and monitored directly by the undertaking's highest governing bodies. It shall be disclosed in accordance with ESRS 4, Disclosure Requirement 2.
- 22 The disclosure required by paragraph [20] shall cover a description of:
- (a) the principal risks of staying in a linear economy;
 - (b) the principal opportunities related to a circular economy;
 - (c) the principal risks of a transition to a circular economy.

Policies, targets, action plans and resources

- 23 The Disclosure Requirements developed hereafter refer to ESRS 5 Definitions for policies, targets, action plans and resources.

[Disclosure Requirement 4] – Policies implemented to manage resource use and circular economy

- 24 The undertaking shall disclose separately its policies (i) to decouple economic activity from extraction of non-renewable resources and (ii) for regeneration of renewable resources and ecosystems.
25. The principle to be followed under this Disclosure Requirement is to provide an understanding of the undertaking's ability to transition away from extraction of virgin non-renewable resources and to implement practices that secure and contribute to the regeneration of the stock of renewable resources and the ecosystems they are part of.
26. The disclosure required by paragraph [24] shall include a description of how the policy commitments related to resource use and circular economy are implemented within the undertaking's own operations and the value chain.

[Disclosure Requirement 5] – Measurable targets for resource use and circular economy

- 27 **The undertaking shall describe (i) the measurable outcome-oriented target set to meet the resource use and circular economy-related policy’s objectives related to the management of its material impacts, risks and opportunities and (ii) the overall progress against the defined target.**
- 28 The principle to be followed under this Disclosure Requirement is to provide an understanding of the capacity of the undertaking to meet the policy’s objectives of resource use and circular economy.
- 29 The resource use and circular economy targets above-mentioned shall include the following categories of targets:
- (a) targets to eliminate waste (including in use phase);
 - (b) targets for circular material use rate;
 - (c) targets to eliminate the use of virgin raw material;
 - (d) targets for reduction/reversal in the depletion of the stock of renewable resources.
- 30 The disclosure required under paragraph 27 shall include:
- (a) a description of how targets are tightly connected with material impacts disclosed in the section ‘risks and opportunities’ and if they are not, a comprehensive justification as to why a material impact is not covered by a target;
 - (b) a description of how the targets contribute to the objectives of the EU Circular Economy Action Plan³;
 - (c) whether targets are absolute or intensity-based and in which unit they are measured;
 - (d) as applicable, the geographical scope of the target: a description of the geographies covered by the target and how these geographies were selected and, if applicable, an explanation of why the relevant geographies identified were not included.
- 31 The undertaking shall disclose which actions are taken to achieve the changes in strategy that are supporting the achievement of the targets.

[Disclosure Requirement 6] – Resource use and circular economy action plans

- 32 **An undertaking shall describe its action plans and allocation of resources to meet its policy objectives and targets.**
- 33 The principle to be followed under this Disclosure Requirement is to provide an understanding of the measures taken to reduce the pressure on resources and to retain and optimise the value of the resources, including to get prepared for the transition to more circular economy related to its policies set in Disclosure Requirement 4.
- 34 The disclosure required by paragraph [32] shall include for each action plan a description of:
- (a) the geographical scope of the actions, including explanation of any limitations as to geographical boundaries or activities;
 - (b) a list of the stakeholders involved in the action plan and how they are involved, or/and a list of stakeholders impacted negatively or positively by the action plan and how they are impacted;
- 35 The action plan shall also include:

³ https://ec.europa.eu/environment/strategy/circular-economy-action-plan_en

- (a) an explanation whether the action is intended to be a one-time initiative or a systematic practice;
- (b) a brief assessment whether key actions may induce significant adverse sustainability impacts;
- (c) further explanations deemed useful to understand key actions and the expected outcomes in relation to the contribution to the achievement of the underlying policy objectives and targets;
- (d) if the action is individual or collective, and for a collective action, the undertaking shall explain its role;
- (e) whether the success of the action depends on the undertaking of similar or on supporting actions by other undertakings, and to what degree.

Performance measurement

[Disclosure Requirement 7] – Resources inflows

36 **The undertaking shall provide information on its resources' inflows.**

37 The principle to be followed under this Disclosure Requirement is to provide an understanding of the resources use in the course of the undertaking's operations.

38 The disclosure required by paragraph [36] should include:

- (a) the amount in both absolute and percentage terms, of reused, recycled and renewable input materials used to manufacture the undertaking's primary products and services;
- (b) the amount in both absolute and percentage terms of reused, recycled and renewable input materials used to package the undertaking's primary products.

[Disclosure Requirement 8] – Resources outflows

39 **The undertaking shall provide information on its resources' outflows.**

40 The principle to be followed under this Disclosure Requirement is to provide an understanding of how the undertaking is contributing to circular economy by increasing the durability, reparability, upgradability, reusability or recyclability of the products and materials.

41 The disclosure required by paragraph [39] shall include:

- (a) the amount in both absolute and percentage terms of reused content derived from products or services outflow;
- (b) the amount in both absolute and percentage terms of recycled content derived from products or services outflow;
- (c) the amount in both absolute and percentage terms of renewable content of products or services outflow.

[Disclosure Requirement 9] – Waste and emissions

42 **The undertaking shall provide information on its wastes and emissions.**

43 The principle to be followed under this Disclosure Requirement is to provide an understanding of the undertaking waste management strategy and of the extent to which the undertaking knows how its waste is managed.

44 This Disclosure Requirement supports the information needs of financial market participants subject to the Sustainable Finance Disclosure Regulation (EU) 2019/2088 (SFDR).

45 The disclosure required by paragraph [42] should include:

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- (a) For each of hazardous and non-hazardous solid waste, the amount by weight diverted from disposal by recovery operation type and the total amount summing all three types. The recovery operation types to be reported are:
 - (i) preparation for reuse;
 - (ii) recycling;
 - (iii) other recovery operations;
- (b) For each of hazardous and non-hazardous solid waste, the amount by weight directed to disposal by recovery operation type and the total amount summing all three types. The recovery operation types to be reported are:
 - (i) incineration with energy recovery;
 - (ii) incineration without energy recovery;
 - (iii) landfilling;
 - (iv) other disposal operations.

[Disclosure Requirement 10] – Resource value strategy

- 46 **The undertaking shall provide information on its strategy to retain the value of the resources.**
- 47 The principle to be followed under this Disclosure Requirement is to provide an understanding of the intensity of materials and products use by the undertaking and its capability to retain the value of the resource used at its highest stage.
- 48 The disclosure required by paragraph [46] shall include the share of net revenue from products and services that leverage the transition to a circular economy through circular business models such as pay-per-use, sharing or repairing services.

[Disclosure Requirement 11] – Circular enablers

- 49 **The undertaking shall provide information on its circular enablers.**
- 50 The principle to be followed under this Disclosure Requirement is to provide an understanding of the services and products that contribute to create circular systems initiatives outside its own activities in the value chain.
- 51 The disclosure required by paragraph [49] shall include a description of:
 - (a) actions, including circularity measures, taken to prevent waste generation in the undertaking's own activities and upstream and downstream in its value chain, and to manage significant impacts from waste generated.
 - (b) the extent to which processes are set up to support circular business models, products or services;
 - (c) the extent to which the undertaking engages with customers on advancing circular economy topics;
 - (d) the extent to which the undertaking engages with suppliers on advancing circular economy topics.

[Disclosure Requirement 12] – Taxonomy Regulation for the transition to a circular economy including enabling activities

- 52 The undertaking shall disclose information required by Article 8 of the Regulation (EU) 2020/852 (Taxonomy Regulation) in conjunction with the Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 and in conjunction with upcoming technical screening criteria for

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determining the conditions under which an economic activity qualifies as contributing substantially to transitioning to circular economy.

- 53 The Taxonomy Regulation in its Article 8(2) requires undertakings to disclose information on the proportion of the turnover, capital expenditure ('CapEx') and operating expenditure ('OpEx') associated with economic activities that qualify as environmentally sustainable.

The information to be disclosed under the upcoming circular economy-related provisions of the Taxonomy regulation shall be complementary to the information disclosed under the provisions of this standard as it provides an understanding of the undertaking's own substantial contribution in favour of the transition to a circular economy.

[Optional Disclosure Requirement 13] – Financial opportunities related to resource use and circular economy other than the Taxonomy Regulation

- 54 **The undertaking may disclose its financial opportunities that relate to resource use and circular economy and that complement the Taxonomy Regulation related ones.**

- 55 The principle to be followed under this Disclosure Requirement is to provide information allowing for an overall understanding of the financial opportunities related to resource use and circular economy, complementing the information requested under the Taxonomy Regulation.

- 56 If the undertaking discloses the information according to paragraph 54, it shall include an assessment of the market size of related products and services over the short-, medium-, and long-term, explaining how these are defined, how financial amounts are estimated and which critical assumptions are made.

Application provisions

- 57 Nil.

Appendix A: Defined terms

This appendix is integral part of the [draft] ESRS E5.

Circular economy	Economic system that uses a systemic approach to maintain a circular flow of resources, by regenerating, retaining or adding to their value, while contributing to sustainable development
Circularity	A state of a specified system, organisation, product or process where resource flows and values are maintained whilst benefiting sustainable development
Resource	Asset from which a product is sourced, produced, supplied or utilised.
By-product	An inevitable result of certain types of material processing and agriculture. In a circular economy all by-products can be feedstock for another production process
Circularity enabler	The services, products or Business models that allow to creating circular systems including cross value chain initiatives.
Hazardous solid waste	Waste that possesses any of the characteristics contained in Annex III of the Basel Convention, or that is considered to be hazardous by national legislation
Non-hazardous solid waste	Waste that does not possesses any of the characteristics contained in Annex III of the Basel Convention, or that is not considered to be hazardous by national legislation
Incineration	Controlled burning of waste at high temperature
Incineration with energy recovery	Incineration with energy recovery refers to incineration processes where the energy created in the combustion process is harnessed for re-use, for example for power generation
Incineration without energy recovery	Incineration without energy recovery means the heat generated by combustion is dissipated in the environment.
Landfilling	Final depositing of solid waste at, below, or above ground level at engineered disposal sites
Natural Resource	Natural assets (raw materials) occurring in nature that can be used for economic production or consumption.
Non-renewable material	Resource that does not renew in short time periods
Primary products	Grown, harvested or extracted raw materials
Recovery operation	Any operation wherein products, components of products, or materials that have become waste are prepared to fulfill a purpose in place of new products, components, or materials that would otherwise have been used for that purpose

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Recyclable materials	Materials which may be collected, separated or processed and returned to the economic mainstream in the form of secondary raw materials or products
Recycling	Reduce a product all the way back to its basic materials, reprocessing and using them to make new products, components or materials.
Regeneration	Approach to managing agroecosystems that provides food and material in ways that create positive outcomes for nature
Renewable materials	Material that is derived from plentiful resources that are quickly replenished by ecological cycles or agricultural processes, so that the services provided by these and other linked resources are not endangered and remain available for the next generation
Resource depletion	Consumption of a resource faster than it can be replenished
Resources Inflows	Resource that enters the organisation's infrastructure.
Resources Outflows	Resource that leaves the organisation's infrastructure.
Reusable materials	Materials that are able of being reused after minimal processing
Reuse	The repeated use of a product or component for its original intended purpose without significant modification, but potentially involving cleaning or small adjustments so it is ready for the next use.
Resource value strategy	To design, produce and distribute materials and products with the objective to keep them in use at their highest value. Eco-design and design for longevity, repair, reuse, repurposing, disassembly, remanufacturing are examples of tools to prevent from a quick and limited use of materials and products. Innovative business models could also contribute to better use existing products and materials (sharing, pay-per-use, ...). Regenerative production methods could also be applied.

Appendix B: Application Guidance

This appendix is an integral part of the proposed [draft] ESRS E5 Resource use and circular economy. It describes the application of the requirements set for in paragraphs [11–58] and has the same authority as the other parts of the [draft] ESRS Standard.

Specific resource use and circular economy-related disclosures for the implementation of ESRS 2 Strategy and business model

[Disclosure Requirement 1] Resource use and circular economy integration in the business model

- AG1. When disclosing information under paragraph [15], the undertaking shall consider the principles of circular economy:
- (a) the elimination of wastes in the value chain;
 - (b) the circularity of products and materials keeping them at their highest value;
 - (c) the regeneration of nature.
- AG2. When disclosing information under paragraph [15], the undertaking shall consider the five key subtopics of resource use and circular economy:
- (a) resources inflows, which represents the circularity of material resources inflows with a split between renewable and non-renewable resources including transparency on virgin versus non virgin materials and on sustainable or regenerative sources;
 - (b) resources outflows, which represents the circularity of material intended outflows including being recirculated in practice. Outflows in this category are intentional to provide an economic or other benefit;
 - (c) waste and emissions, which represents the circularity of extraneous resources outflows taking into account the waste hierarchy: prevention, re-use, recycling;
 - (d) resource value strategy, which represents the intensity of materials and products' use; creating innovative business models or applying regenerative production methods;
 - (e) circular enablers, which represents the services and products that allow to creating circular systems including cross value chain initiatives.
- AG3. With regards to impacts, the undertaking shall disclose how the current and future business model and strategy cause and drive pressure on resources that reduce stocks and flows of resources - and their benefits to society.
- AG4. The disclosure required by paragraphs AG28 and AG29 of ESRS 2 shall include a description of:
- (a) the implementation of a strategy to retain the value of the resources and to shift from linear to circular business practices, within own operations and across value chain;
 - (b) the potential risks of negative externalities;
 - (c) how the undertaking will implement the requirements of the EU circular economy action plan.
- AG5. With regards to Risks and opportunities, the disclosure required by paragraphs AG33 and AG34 of ESRS 2 shall cover:
- (a) a list and prioritisation of the natural resources used by the undertaking based on the evaluation of the remaining resources and the negative externalities resulting from the use of resources;
 - (b) a description of:
 - (i) the capability of the undertaking to safeguard future stocks and flows of resources and the related benefits to society;

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- (ii) the way activities are decoupled from extraction and natural resources by implementing a value strategy of the resources use and intensifying circular material use; and
 - (iii) the resulting short-, medium- and long-term strategic implications for its business model and strategy;
- (c) a description in the operations and along the value chain of the undertaking of:
- (i) the extraction and use of non-renewable resources;
 - (ii) the depletion of stock and use of renewable resources; and
 - (iii) the stages of the value chain where resource use, risks and negative impacts are concentrated;
- (d) a description of how the risks and opportunities both related to the transition to a circular economy and to the risks of staying in a linear economy serve as an input to the management's strategy and decision making.

[Disclosure Requirement 2] Processes to identify resource use and circular economy-related impacts, risks and opportunities

- AG6. The disclosure required by paragraph [18] shall include:
- (a) a description of the due diligence processes used to identifying and assessing the adverse and positive impacts associated with the linear or circular nature of the activities along the value chain, i.e. on the undertaking operations, supply chain and products;
 - (b) a description of how processes for identifying, assessing and managing impacts, risks and opportunities related to the transition to a circular economy are integrated into the overall risk management, management system and strategy definition.
- AG7. When disclosing information, the undertaking shall consider:
- (a) how business models could increase the resource value (e.g. product-as-a-service, pay-per-use, sharing, leasing);
 - (b) the conception of the products and materials (eco-design for longevity, repair, reuse...), including raw material inputs (for example recycling, by-products, virgin raw materials, renewable resources), use and end of use of products and materials.
- AG8. When describing the identification process on its operations, the undertaking shall cover the raw material consumption, potential substitution of natural resources by recycling materials, the waste management (hazardous and non-hazardous wastes) while considering the potential adverse or beneficial other environmental impacts (climate change, water, pollution, biodiversity).
- AG9. When describing the identification process on its supply chain, the undertaking shall cover raw material inputs, practices to secure renewable resources regeneration, waste management and other potential impacts downstream on the operations.

[Disclosure Requirement 6] – Resource use and circular economy action plans

- AG10. When disclosing information under paragraph [32], the undertaking shall disclose action plans:
- (a) based on the circular economy principles: elimination of waste, product and materials circulation at their highest value, and nature regeneration;
 - (b) subdivided into sub-topics identifying the key stage of the actions among the five stages presented earlier: resources inflows, resources outflows, waste and emissions, resource value strategy and circular enablers.
- AG11. The actions taken shall cover operations, products, services and materials and supply chain.
- AG12. When describing action plans on operations, the undertaking shall consider:

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- (a) the manufacturing and distribution adaptation,
- (b) the development of skills and training to improve internal competencies on resource use and circular economy; and
- (c) innovation and R&D on manufacturing processes and product development allowing the conception of products and materials integrating eco-design principles, circularity and resources value along the value chain.

AG13. When describing action plans on its value chain, the undertaking shall consider developing collaborations with its local eco-system and suppliers or more generally stakeholders to increase the circularity of products and materials.

[Disclosure Requirement 7] - Resource Inflows

AG14. The resource inflows indicators are inspired by GRI 301: Materials. Specifically, disclosure 301-1 and disclosure 301-2 are referenced.

AG15. The disclosure required under paragraph 38 (a) related to the tonnage and percentage of reused, recycled and renewable input materials used to manufacture the organisation primary products and services should include:

- (a) the total weight of materials that are used to manufacture the undertaking's primary products and services during the reporting period, by:
 - (i) reused;
 - (ii) recycled;
 - (iii) renewable.
- (b) the percentage of materials used to manufacture the undertaking's primary products and services, that are:
 - (i) reused;
 - (ii) recycled;
 - (iii) renewable.

AG16. When compiling the percentage indicator, the undertaking shall use as denominator the overall total weight of materials used during the reporting period.

AG17. The materials used should include:

- (a) raw materials;
- (b) associated process material;
- (c) semi-manufactured goods or parts.

AG18. The reported usage data are to reflect the material in its original state, and not to be presented with further data manipulation, such as reporting it as 'dry weight' (see Guidance for Disclosure 301-1 in GRI-301 Materials).

AG19. In cases where reused, recycled, renewable categories overlap, the undertaking shall explain how double counting was avoided and choices that were made.

AG20. The disclosure required under paragraph 38 (b) related to tonnage and percentage of reused, recycled and renewable input material used to package the undertaking's primary products and services should include the following information:

- (a) the total weight of materials that are used to package the undertaking's primary products and services during the reporting period, by
 - (i) reused;
 - (ii) recycled;
 - (iii) renewable;

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- (b) the percentage of materials used to package the undertaking's primary products and services that are:
 - (i) reused;
 - (ii) recycled;
 - (iii) renewable.
- AG21. When compiling the percentage indicator, the undertaking shall use as denominator the overall total weight of materials used for packaging during the reporting period.
- AG22. As additional information the undertaking shall report whether these data are sourced from direct measurement or estimated; if estimation is required, the methods used shall be reported.

[Disclosure Requirement 8] - Resource outflows

- AG23. The resource outflows indicators are inspired by GRI 301: Materials. Specifically, disclosure 301-1 and disclosure 301-2 are referenced.
- AG24. The disclosure required under paragraph 39 related to the tonnage and percentage of reusable, recyclable and renewable material derived from products or services outflow shall include:
 - (a) the total weight of materials that come out of the undertaking's products and services production process, including packaging, during the reporting period, by:
 - (i) reusable;
 - (ii) recyclable;
 - (iii) renewable;
 - (b) the percentage of materials that come out of the undertaking's products and services production process, including packaging, during the reporting period:
 - (i) reusable ;
 - (ii) recyclable ;
 - (iii) renewable.
- AG25. Solid waste production coming out of the undertaking's products and services production process, even if diverted from disposal, have to be disclosed under Disclosure Requirement 8, 'Waste and emissions'.
- AG26. Sector-specific guidelines in terms of quality of resource outflow, such as thresholds for potential concentration of contaminants, may divert some undertaking's materials derived from products and services outflow in 'Waste and emissions' subtopic.
- AG27. When compiling the percentage indicator, the undertaking shall use as denominator the overall total weight of materials used during the reporting period.
- AG28. The reported usage data are to reflect the material in its original state, and not to be presented with further data manipulation, such as reporting it as 'dry weight' (see Guidance for Disclosure 301-1 in GRI-301 Materials).
- AG29. The reusable, recyclable, renewable categories might overlap.
- AG30. As additional information the undertaking shall report whether these data are sourced from direct measurement or estimated; if estimation is required, the methods used shall be reported.

[Disclosure Requirement 9] - Waste and emissions

- AG31. The weight of hazardous and non-hazardous waste generated shall be expressed in tonnes.

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- AG32. The application guidance for Waste and Emissions indicators is the one of GRI 306 – Waste 2020 GRI standards.
- AG33. The undertaking shall disclose the metrics as defined by GRI 306 Waste disclosure 306-5, When reporting composition of the waste, the organization can describe:
- (a) the type of waste, such as hazardous waste or non-hazardous waste;
 - (b) the waste streams, relevant to its sector or activities (e.g., tailings for an undertaking in the mining sector, electronic waste for an undertaking in the consumer electronics sector, or food waste for an undertaking in the agriculture or in the hospitality sector);
 - (c) the materials that are present in the waste (e.g., biomass, metals, non-metallic minerals, plastics, textiles).
- AG34. Besides incineration and landfilling, the undertaking may specify the other types of disposal operations it uses under Disclosures 306-5-b-iv and 306-5-c-iv, such as dumping, open burning, or deep well injection.
- AG35. Where relevant, the undertaking shall:
- (a) explain the reasons for the difference between the weights of waste directed to disposal on, own operations and in the value chain (e.g., local regulations that prohibit landfilling of specific types of waste);
 - (b) describe sector practices, sector standards, or external regulations that mandate a specific disposal operation;
 - (c) specify whether the data has been modeled or sourced from direct measurements, such as waste transfer notes from contracted waste collectors, external assurance, or audits of waste-related data.

[Disclosure Requirement 10] Resource value strategy

- AG36. The undertaking shall illustrate and describe the business model to strengthen value retention, while considering the sector-specific standards and how circular economy is addressed in those standards.
- AG37. Net revenue shall be consistent with financial statements.
- AG38. The share of revenue leveraging the transition to a circular economy shall refer to product life cycle management.
- AG39. The examples given are non-comprehensive. Any enumeration would remain incomplete at the current stage of circularity. Thus, the undertaking shall provide illustrations in order to make the link between (i) products and services net turnover and (ii) value retention transparent.

Appendix C: Digitisation guidance

This appendix is an integral part of ESRS **E5 Resource Use and Circular Economy**. It describes the instructions for the digital tagging.

To be further developed

Basis for conclusions

This Basis for Conclusions accompanies but is not part of ESRS1 Resource Use and Circular Economy. This draft accompanies the working paper. It gathers the considerations relating to the disclosure proposals summarised in the working paper and elaborates on them. At the final version it summarises the considerations of the EFRAG Sustainability Board in developing the proposed contents of the Standard. Individual Board members gave greater weight to some factors than to others.

Objective

- BC1. Based on the relevant provisions from the Corporate Sustainability Reporting Directive (CSRD) proposal, existing and upcoming EU Taxonomy⁴, the new EU Circular Economy Action Plan⁵, and approach of the EFRAG PTF-ESRS, the objective of the environmental standard on Resource Use and Circular Economy should be to ensure that stakeholders of the undertaking obtain the necessary information that enables them to understand:
- (a) the positive and negative impacts of the undertaking on resource use taking into account the depletion of non-renewable resources and the regeneration of renewable resources and its past, current and future measures to decouple its growth from extraction of natural resources;
 - (b) the nature, type and extent of risks and opportunities arising from the resources use and the transition to a circular economy including potential negative externalities;
 - (c) the effects of circular-economy-related risks and opportunities on the entity's development, position and performance and on the ability to create enterprise value over the short-, medium- and long-term; and
 - (d) the plans and capacity of the undertaking to adapt its business model and operations in line with the transition to a circular economy and the efficient use of natural resources including its regeneration.
- BC2. The ESRS seeks an appropriate compatibility with other international initiatives, including:
- (a) the Global Reporting Initiative (GRI);
 - (b) the Value Reporting Foundation (based on the standards of the Sustainability Accounting Standards Board [SASB]);
 - (c) ISO TC323 /WG3 ongoing standards.

Scope: (subject to alignment with ESRS 1)

- BC3. The "Resource Use and Circular Economy standard prototype" working paper and this document cover disclosure proposals related to these issues defined in EU existing legislation and policies. ESRS Resource Use and Circular Economy shall be used for the reporting entities as stated in the following sections.

Financial consolidation considerations

- BC4. The ESRS1 reporting entities boundaries should extend at minimum to the financial consolidation reporting principles of that entity.

• ⁴ The denomination « Resource Use and Circular Economy » is taken from the draft CSRD; EU Taxonomy calls the objective « Transition to a Circular Economy »

⁵ https://ec.europa.eu/environment/strategy/circular-economy-action-plan_fr

Value chain considerations

- BC5. Based on the ESG1 Guidelines on Double Materiality, Materiality of a sustainability topic should be assessed over the whole value chain and over all time horizons. This may thus extend the required disclosures beyond the scope of the company's consolidated financial reporting.
- BC6. When carrying out circularity measurement and assessment of systems that can be complex it is necessary to generate, search and manage appropriate data and apply those data across the entire life cycle(s) of the product(s) raw material acquisition, production, distribution, use and end-of-life treatment.
- BC7. In performing circularity measurements and assessments a systemic approach and a life cycle perspective should thus be applied.

Context

EU legislation and policy alignment

- BC8. To ensure consistency with the political targets of the European Union, and to fit to other frameworks, this standard has been very closely aligned with:
- (a) the new EU Circular Economy Action Plan: as a key deliverable of the EU Green Deal, published on 11/03/2020;
 - (b) the proposal made by the Technical Working Group of the Platform on Sustainable Finance (PSF) published on August 3, 2021;
 - (c) the Sustainable Finance Disclosure Regulation (SFDR) draft Regulatory Technical Standards (RTS), published on 22/10/ 2021.
- BC9. As stated in the Commission's 2020 new Circular Economy Action Plan, the EU needs to accelerate the transition towards a regenerative growth model, advance towards keeping its resource consumption within planetary boundaries, and therefore strive to reduce its consumption footprint and double its circular material use rate in the coming decade. The action plan also highlights how scaling up the circular economy will make a decisive contribution to achieving climate neutrality by 2050 and decoupling economic growth from resource use, while ensuring the long-term competitiveness of the EU and leaving no one behind. More broadly, transitioning to a circular economy not only addresses the negative impacts of the linear economy, but more importantly it represents a systemic shift that builds long-term resilience, generates business and economic opportunities, and provides environmental and societal benefits.
- BC10. As today there is no quantitative overarching EU ambition level for the circular economy, the ambition builds on a range of published strategies and targets. For example, the Commission committed to develop indicators on resource use, including consumption and material footprints. In February 2020, the EU Parliament called for binding targets for 2030 to significantly reduce the EU material and consumption footprints and bring them within planetary boundaries by 2050. Finally, the Council encouraged the Commission to explore how these indicators could set a benchmark for an indicative EU circular economy goal.⁶ Thus, this standard includes cross-references in particular to the:
- (a) EU Taxonomy headline ambition for the transition to a circular economy;
 - (b) EU Sustainable Finance Disclosure Regulation (SFDR);
 - (c) EU Green Deal– "Goal on mobilizing industry for a clean and circular economy";
 - (d) EU new Industrial Strategy;
 - (e) EU new Circular Economy Action Plan.

⁶ (Source: Platform on Sustainable Finance: Technical Working Group – Taxonomy pack for feedback, August 2021, p26-27).

- BC11. This standard strives to provide transparency on a undertaking's contribution to international goals especially the UN's SDG Goal 12 Responsible Consumption and Production: Ensure sustainable consumption and production encompasses the following targets:
- (a) Target 12.2 By 2030, achieve the sustainable management and efficient use of natural resources;
 - (b) Target 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
- BC12. This standard builds on and specifies the cross-cutting standards:
- (a) ESRS Business Strategy;
 - (b) ESRS Risks, Opportunities and Impacts;
 - (c) ESRS Sustainability Governance and Organisation.
- BC13. Global use of resources (renewable and non-renewable) continues to grow and is expected to double in the next forty years. The resulting negative externalities (such as climate change, biodiversity loss, and waste and pollution) and the pressure on resources is no longer bearable (sustainable).
- BC14. To safeguard future stocks and flows of resources - and their benefits to society - and to address the (risks of) negative externalities, we need to secure both:
- (a) reduce the extraction of non-renewable resources with the priority based on the existing residual stock, and decouple economic activity from extractive practices (e.g. through circular business models increasing asset utilisation or lifespan);
 - (b) implement practices that secure the regeneration of renewable resources (e.g. soil regeneration rather than depletion) and keep resources in the economy at their highest value (e.g. cascading food to feed to material feedstock).
- BC15. Decoupling economic activity from extraction of natural resources can take place through the implementation of a value strategy to prevent the natural resources extraction and the intensification of circular material use.
- BC16. A resource value strategy means to design, produce and distribute materials and products with the objective to keep them in use at their highest value. Ecodesign and design for longevity, repair, reuse, repurposing, disassembly, remanufacturing are examples of tools to prevent from a quick and limited use of materials and products. Innovative business models could also contribute to better use existing products and materials (sharing, pay-per-use, ...). Regenerative production methods could also be applied.
- BC17. The intensification of circular material use is also a way to decouple natural resources use and economic activity. Beyond the existence of circular streams, they have to be organised from the collection of used products and materials to ensure the reuse, repair, remanufacturing and recycling. In addition, the production processes could be to be designed to reduce waste and increase the use of recycled materials (closed loop recycling, by-product use...). Depending on the sector of the undertaking, cascading food and upcycling ingredients could be opportunities to retain the value of the resource.

Subtopics

- BC18. The ESRS Resource Use and Circular Economy working paper covers disclosure proposals for performance measures related to subtopics:
- (a) resource inflows;
 - (b) resource outflows;
 - (c) waste and emissions;
 - (d) resource value strategy;
 - (e) circular enablers.

- BC19. The structure based on subtopics was chosen to facilitate the illustration of the strategy and the action plan developed by the undertaking to intensify circular material use and implement a value strategy to avoid natural resource extraction described in BC15, BC16 and BC17. The structure will also facilitate the comparability of the disclosures for the users.
- BC20. Resource inflows, Resource outflows, Waste and emission subtopics are commonly used by most active circularity indicator systems, such as GRI or Circulytics framework from Ellen Mc Arthur Foundation. They also have been inspired from ISO TC323/WG3 draft standard “Circular Economy — Measuring and assessing circularity. The flows measurements will be divided in renewable and non-renewable resources in line with the Objectives highlighted in BC 1.
- BC21. Resource inflows subtopic represents the circularity of material resources inflows with a split between renewable and non-renewable resources including transparency on virgin versus non virgin materials and on sustainable or regenerative sources.
- BC22. Resource outflows subtopic represents the circularity of material intended outflows including being recirculated in practices. Outflows in this category are intentional to provide an economic or other benefit.
- BC23. Waste and emissions subtopic represents the circularity of extraneous resources outflows taking into account the waste hierarchy: prevention, re-use, recycling.
- BC24. Value Strategy and Circular enablers subtopics aim to describe the action of the entity for keeping materials and products in use at their highest value, creating innovative business models contributing to better design and utilisation of existing products and materials, or applying regenerative production methods. They also stress the issue that circular economy performance results from the mobilization of an ecosystem centred around the undertaking.
- BC25. Value strategy subtopic represents the intensity of materials and products’ use; creating innovative business models or applying regenerative production methods.
- BC26. Circular enablers subtopic represents the services and products that allow to creating circular systems including cross value chain initiatives.
- BC27. The definition of these subtopics was challenged and updated following discussion with PSF members or external experts, such as Ellen Mc Arthur Foundation or ISO TC323/WG3 Chair.

Interaction of the environmental objectives

- BC28. As for the technical steering criteria of the EU Taxonomy “The headline ambition levels reflect these positions, (...) the circular economy ambition level focused on a system change to enable the achievement of other objectives (including climate).(EU Tax pack, p21)

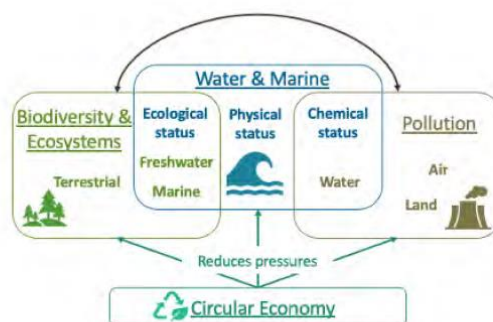


Figure 3: Overlapping among the different environmental objectives of the Taxonomy

(EU Tax pack, p22)

Choice of specific Disclosure Requirements

BC29. Draft standard prototype aims to meet the requirements of a sector agnostic approach. However, as the existing frameworks on Circular Economy are more often sector specific than sector agnostic, sector specific frameworks have also been analysed. Exchanges with PSF representatives have allowed to align the draft standard with PSF views. In addition, informal dialogue with external organisations (GRI, ISO, ...) are still ongoing in order to continue to merge the approaches on a common basis.

Circularity Indicator Category / Potential Subtopics	Description	Potential overlaps with other topics / subtopics	EU Taxonomy alignment	Types of substantial contribution
Resource inflows	Indicators that represent the circularity of material resource inflows (excluding resources that are covered in other categories i.e energy and water)	Water	(a) uses natural resources including sustainably sourced bio-based and other raw materials in production more efficiently : reducing the use of primary raw materials or increasing the use of by-products and secondary raw materials resource and[energy] efficiency (d) reduce the content of hazardous substances and substitutes of very high concern in material and products throughout the life cycle in line with the EU objectives including replacing such substances with safer alternatives and ensuring traceability (f) increase the use of secondary raw materials and the quality including high-quality recycling of waste	1. Circular design and production 3. Circular value recovery
Resource outflows	Indicators that represent the circularity of material intended outflows (excluding resources that are covered in other categories i.e energy and water). Note: outflows in this category are intentional to provide an economic or other benefit.	Water	(b)increases the durability, reparability, upgradability or reusability of products in particular designing and manufacturing activities (c)increases the recyclability of products including the recyclability of individual materials contained in those products inter allia by substitution or reduced use of products or materials that are not recyclable	1.Circular Design 2. Circular use

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Waste and emissions	Indicators that represent the circularity of extraneous resource outflows (such as solid waste and emissions) (excluding resources that are covered by other categories i.e water)	Pollution	(g) prevents or reduces waste generation <i>including the generation of waste from extraction of minerals and waste from construction and demolition.[sector specific]</i> (h) increases preparing for re-use and recycling waste (i) increases the development of the waste management infrastructure needed for prevention, for preparing for re-use and for recycling while ensuring that the recovered materials are recycled as high quality secondary raw material input in production thereby avoiding downcycling (k) avoids and reduce litters	1. Circular design and production 2. Circular use 3. Circular value recovery
Value strategy and circular enablers	Indicators that consider the economy value and other benefits in comparison to net resource requirements		(e) prolonge the use of products including through reuse, design for longevity, repurposing, disassembly, remanufacturing, upgrades and repair, sharing products	1. Circular design and production 2. Circular use 3. Circular value recovery 4. Circular support

Additional disclosure on Resource Use and Circular Economy: Business Strategy

BC30. Cross-Cutting Standards on the reporting area “Strategy” are being developed separately. The draft proposals in this document are limited to additional Resource Use and Circular Economy disclosures.

Why disclosing on Business strategy and Resource Use and Circular Economy

EU legislation and recommendations

BC31. As stated in Article 19a of the proposed Corporate Sustainability Reporting Directive (CSRD), reporting entities shall report on the following elements: “The information [...] shall contain in particular:

- (a) a brief description of the undertaking's business model and strategy, including:
 - i. the resilience of the undertaking's business model and strategy to risks related to sustainability matters;
 - ii. the opportunities for the undertaking related to sustainability matters;
 - iii. the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement;

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- iv. how the undertaking's business model and strategy take account of the interests of the undertaking's stakeholders and of the impacts of the undertaking on sustainability matters;
 - v. how the undertaking's strategy has been implemented with regard to sustainability matters;"
- BC32. The ESRS should support the new Circular Economy Action Plan through requiring reporting entities to consider how to adapt their business strategy to align with this goal and mandating disclosure on how this is being achieved.

Global reporting frameworks

- BC33. The Global Reporting Initiative (GRI)
- BC34. The Value Reporting Foundation (based on the standards of the Sustainability Accounting Standards Board [SASB])
- BC35. Ellen McArthur Foundation Circular Economy Reporting Framework (Circulytics)
- BC36. ISO TC323 /WG3 ongoing standards.

Users' needs

- BC37. The EU new Industrial strategy states that consumers should receive trustworthy and relevant information to choose reusable, durable and repairable products. The Commission will propose ways to improve consumer rights and protection, including by working towards a 'right to repair' for consumers.
- BC38. "The new Circular economy action plan presents a set of interrelated initiatives to establish a strong and coherent product policy framework that will make sustainable products, services and business models the norm and transform consumption patterns so that no waste is produced in the first place. Empowering consumers and providing them with cost-saving opportunities is a key building block of the sustainable product policy framework.
- BC39. To enhance the participation of consumers in the circular economy, the Commission will propose a revision of EU consumer law to ensure that consumers receive trustworthy and relevant information on products at the point of sale, including on their lifespan and on the availability of repair services, spare parts and repair manuals. The Commission will also consider further strengthening consumer protection against green washing and premature obsolescence, setting minimum requirements for sustainability labels/logos and for information tools".

Additional disclosure on Resource Use and Circular Economy impacts, risks and opportunities

Why disclosing on impacts, risks and opportunities and Resource Use and Circular Economy

EU legislation and recommendations

- BC40. As stated in Article 19a of the proposed Corporate Sustainability Reporting Directive (CSRD), reporting entities shall report on the following elements:
- "The information [...] shall contain in particular:
- (a) a brief description of the undertaking's business model and strategy, including:
 - i. the resilience of the undertaking's business model and strategy to risks related to sustainability matters;

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- ii. the opportunities for the undertaking related to sustainability matters;
 - iii. the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement;
 - iv. how the undertaking's business model and strategy take account of the interests of the undertaking's stakeholders and of the impacts of the undertaking on sustainability matters;
 - v. how the undertaking's strategy has been implemented with regard to sustainability matters;"
- BC41. The EU new Industrial strategy states that a more circular approach will ensure a cleaner and more competitive industry by reducing environmental impacts, alleviating competition for scarce resources and reducing production costs. Applying circular economy principles in all sectors and industries has potential to create 700,000 new jobs across the EU by 2030, many of which in SMEs.
- BC42. The new EU Circular Economy action plan assesses that Circularity is an essential part of a wider transformation of industry towards climate-neutrality and long-term competitiveness. It can deliver substantial material savings throughout value chains and production processes, generate extra value and unlock economic opportunities.

What to disclose

- BC43. Every undertaking should disclose on the impacts, risks and opportunities covering own operations and the whole value chain related to the transition to a circular economy:
- (a) identification and assessment processes for the impacts related to the transition to a circular economy;
 - (b) description on impacts related to the transition to a circular economy.

Additional disclosure on Resource Use and Circular Economy: Governance

- BC44. Cross-Cutting Standards on the reporting area "Strategy" are being developed separately. The draft proposals in this document are limited to additional Resource Use and Circular Economy disclosures.

Why disclosing on Governance and Resource Use and Circular Economy

EU legislation and recommendations

- BC45. As stated in Article 19a of the proposed Corporate Sustainability Reporting Directive (CSRD), reporting entities shall report on the following elements:
- "The information [...] shall contain in particular:
- [...]
 - (c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters;
 - [...]
 - (d) a description of:
 - (i) the due diligence process implemented with regard to sustainability matters;

- (ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;
- (iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;"

BC46. The new EU Circular Economy Action plan aims to identify knowledge and governance gaps in advancing a global circular economy and take forward partnership initiatives, including with major economies

Resource Use and Circular Economy: Policies and targets

BC47. Cross-Cutting Reference Standards on the reporting area "Implementation" are being developed separately. The draft proposals in this document are limited to additional Resource Use and Circular Economy specificities.

Why disclosing on Policy and Targets and Resource Use and Circular Economy

EU legislation and recommendations

BC48. As stated in Article 19a of the proposed Corporate Sustainability Reporting Directive (CSRD), reporting entities shall report on the following elements:⁷

"The information [...] shall contain in particular:

[...]

- (b) a description of the targets related to sustainability matters set by the undertaking and of the progress the undertaking has made towards achieving those targets;
- (c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters;
- (d) a description of the undertaking's policies in relation to sustainability matters;
- (e) a description of:
 - (i) the due diligence process implemented with regard to sustainability matters;
 - (ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;
 - (iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;"

BC49. The European Green Deal targets to improve the well-being and health of citizens and future generations by providing longer lasting products that can be repaired, recycled and re-used.

BC50. The Taxonomy proposal published on August 3, 2021, elaborates:

- (a) Objective 4 – The transition to a circular economy: "By 2030 economic growth is decoupled from extraction of non-renewable resources and depletion of the stock of renewable resources is reversed, and by 2050 economic activity is largely decoupled from resource extraction, through environmental design for a circular economy to eliminate waste and pollution, keep materials and products in use at their highest value, and to regenerate ecosystems.
- (b) This ambition builds on a reduction of the EU27 material footprint (RME) by 50% by 2030 and by 75% by 2050 (compared to a 2015 baseline of 14t/capita) and raising the circular material use rate of all materials to increase the average to at least

⁷ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting, p. 42-43

25% by 2030, by increasing the durability, repairability, upgradability, reusability or recyclability of products, and by remanufacturing, preparing for reuse and recycling of used materials and products; and on cultivating 25% of total agricultural land and production forestry by 2030, and 100% by 2050, using regenerative production methods, such as agroecology and silvopasture.” (EU Tax pack p25)

- BC51. As today there is no quantitative overarching EU ambition level for the circular economy, the ambition builds on a range of published strategies and targets. (EU Tax pack p27)
- BC52. The EU Industrial Strategy, complemented by the European Commission’s new Action Plan on the Circular Economy (CEAP), states that circularity is an essential part of a wider transformation of industry towards climate-neutrality and long-term competitiveness. It can deliver substantial material savings throughout value chains and production processes, generate extra value and unlock economic opportunities.
- BC53. Moving past the current linear model, a circular economy aims to redefine growth, focusing on positive society-wide benefits and gradually decoupling economic activity from the extraction of natural resources. The transition to renewable energy sources is an essential requirement for the circular economy, which is based on three principles, driven by environmental design¹⁶: eliminate waste and pollution; keep products and materials in use at their highest value; and regenerate ecosystems. (EU Tax pack, p26)
- BC54. Undertakings should disclose which actions the undertaking takes to achieve the targets (see section on actions and resources) and how the business model and strategy support the achievement of the targets (see section on business model and strategy).

Additional disclosure on Resource Use and Circular Economy: Actions and resources

- BC55. Cross-Cutting Reference Standards on the reporting area “Implementation” are being developed separately. The draft proposals in this document are limited to additional Resource Use and Circular Economy disclosures. Three issues have been identified in the draft standard as part of these additional disclosures: eliminating of waste, circulating products and materials at their highest value, Regenerating nature.

Why disclosing on Actions and Resources and Resource Use and Circular Economy

EU legislation and recommendations

As stated in Article 19a of the proposed Corporate Sustainability Reporting Directive (CSRD), reporting entities shall report on the following elements:⁸

“The information [...] shall contain in particular:

- (a) a brief description of the undertaking’s business model and strategy, including:
 - (i) the resilience of the undertaking’s business model and strategy to risks related to sustainability matters;
 - (ii) the opportunities for the undertaking related to sustainability matters;
 - (iii) the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement;
 - (iv) how the undertaking’s business model and strategy take account of the interests of the undertaking’s stakeholders and of the impacts of the undertaking on sustainability matters;

⁸ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting, p. 42-43

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- (v) how the undertaking's strategy has been implemented with regard to sustainability matters;
[...]
- (e) a description of:
 - i. the due diligence process implemented with regard to sustainability matters;
 - ii. the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;
 - iii. any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;"

BC56. "Circular Economy can be seen as a response that helps to achieve the desired state of an objective, or to reduce the pressure on an objective" (EU Tax pack p21).

What to disclose

BC57. Every undertaking should disclose on their actions and resources aiming to eliminate waste, circulate products at their highest value and regenerate nature, in line with the 5 subtopics highlighted in the working paper in the disclosure proposals for performance measure. For example, conception and ecodesign, innovation and R&D, skills development and training, manufacturing and distribution adaptation, local collaborations, initiatives across value chain.

Resource Use and Circular Economy performance measures: (retrospective and forward looking)

Why disclosing on Resource Use and Circular Economy performance measures?

EU legislation and recommendations

BC58. As stated in Article 19a of the proposed Corporate Sustainability Reporting Directive (CSRD), reporting entities shall report on the following elements:

"The information [...] shall contain in particular:

[...]

- (b) a description of the targets related to sustainability matters set by the undertaking and of the progress the undertaking has made towards achieving those targets;

[...]

- (g) indicators relevant to the disclosures referred to in points (a) to (f).

[...]

BC59. Undertakings shall report the process carried out to identify the information that they have included in the management report [...] and in this process they shall take account of short, medium and long-term horizons.

BC60. The information [...] shall contain forward-looking and retrospective information, and qualitative and quantitative information.

BC61. Where appropriate, the information [...] shall contain information about the undertaking's value chain, including the undertaking's own operations, products and services, its business relationships and its supply chain."

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- BC62. The Taxonomy Regulation highlights the importance of increasing durability, repairability, upgradability, reusability and recyclability, in particular in designing and manufacturing activities, of prolonging the use of products, including through reuse and remanufacturing, and of recycling (Regulation (EU) 2020/852 (Taxonomy) on the establishment of a framework to facilitate sustainable investment) (from EU Tax pack, p.27)
- BC63. The Taxonomy Regulation establishes 6 environmental objectives; Transition to a circular economy is the 4th.

Global reporting frameworks (see comparison table below)

- BC64. GRI 301 – Materials: Resource conservation aspects are described by GRI 301 which addresses the topic of materials and describes the following resource conservation aspects: “The type and amount of materials the organization uses can indicate its dependence on natural resources, and the impacts it has on their availability. The organization’s contribution to resource conservation can be indicated by its approach to recycling, reusing and reclaiming materials, products, and packaging (GRI 301, p4)
- BC65. The Value Reporting Foundation (based on the standards of the Sustainability Accounting Standards Board [SASB])
- BC66. Ellen McArthur Foundation Circular Economy Reporting Framework (Circulytics).
- BC67. ISO TC323/WG3 draft standard.
- BC68. Relevant SASB frameworks were also reviewed and their sector agnostic parts were incorporated as part of the required metrics.

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Circularity Indicator Category / Potential Subtopics	Potential overlaps			
		GRI	SFRD	Circulytics
Resource inflows	Water	<p>a. Percentage of reclaimed products and their packaging materials for each product category.</p> <p>b. How the data for this disclosure have been collected.</p> <p>Total weight or volume of materials that are used to produce and package the organization's primary products and services during the reporting period, by:</p> <p>i. non-renewable materials used;</p> <p>ii. renewable materials used.</p> <p>PERCENTAGE OF MATERIALS USED THAT ARE RECYCLED INPUT MATERIALS</p> <p>Percentage of recycled input materials used to manufacture the organization's primary products and services.</p>	<p>Raw materials consumption for new construction and major renovations - Share of raw building materials (excluding recovered, recycled and biosourced) compared to the total weight of building materials used in new construction and major renovations</p>	<p>. Mass of inflow products and materials suitable for the technical /biological cycle</p> <p>. For technical cycle : % of non-virgin, % of virgin but renewable and regeneratively sourced</p> <p>. For biological cycle : % of sourced, % virgin but renewable and regeneratively sourced</p>
Resource outflows (intended)	Water			<p>. Mass of outflow products and materials suitable for the technical /biological cycle</p> <p>. % of physical products designed along circular economy principles (during use/ during end of functional life)</p> <p>. % of products and materials suitable for the technical cycle that are recirculated in reuse/redistribution, refurbishment, recycling, nutrient recirculation</p>
Waste and emissions	Pollution	<p>a. Actions, including circularity measures, taken to prevent waste generation in the organization's own activities and upstream and downstream in its value chain, and to manage significant impacts from waste generated.</p> <p>b. If the waste generated by the organization in its own activities is managed by a third party, a description of the processes used to determine whether the third party manages the waste in line with contractual or legislative obligations.</p> <p>c. The processes used to collect and monitor waste-related data</p> <p>a. Total weight of waste directed to disposal in metric tons, and a breakdown of this total by composition of the waste.</p> <p>b. Total weight of hazardous waste directed to disposal in metric tons, and a breakdown of this total by the following disposal operations:</p> <p>i. Incineration (with energy recovery);</p> <p>ii. Incineration (without energy recovery);</p> <p>iii. Landfilling;</p> <p>iv. Other disposal operations.</p> <p>c. Total weight of non-hazardous waste directed to disposal in metric tons, and a breakdown of this total by the following disposal operations:</p> <p>i. Incineration (with energy recovery);</p> <p>ii. Incineration (without energy recovery);</p> <p>iii. Landfilling;</p>	<p>Hazardous waste ratio - tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average</p> <p>Non-recycled waste ratio - tonnes of non-recycled waste generated by investee companies per million EUR invested, expressed as a weighted average</p> <p>Waste production in operations - share of real estate assets not equipped with facilities for waste sorting and not covered by a waste recovery or recycling contract</p> <p>Waste production in operations - share of real estate assets not equipped with facilities for waste sorting and not covered by a waste recovery or recycling contract</p>	<p>. % total outflow of products and materials suitable for the technical / biological cycle being waste or by-products that go to landfill or incineration and are therefore not recirculated (to be questioned ...)</p> <p>. Material outflows (products, by-products, waste and materials used in processes) contain any substances from the Cradle to Cradle Certified Products Program in quantities above the maximum allowable concentration</p>
Energy	Climate	<p>a. Total fuel consumption within the organization from non-renewable sources, in joules or multiples, and including fuel types used.</p> <p>b. Total fuel consumption within the organization from renewable sources, in joules or multiples, and including fuel types used.</p> <p>c. In joules, watt-hours or multiples, the total:</p> <p>i. electricity consumption</p> <p>ii. heating consumption</p> <p>iii. cooling consumption</p> <p>iv. steam consumption</p>		<p>. Total annual energy use</p> <p>. % of energy use from renewable sources</p> <p>. Total energy production</p> <p>. % of energy production from renewable sources</p>
Water	Water			<p>. Total annual water inflow volume</p> <p>. Total annual water outflow volume</p> <p>. Annual water demand by sources</p> <p>. % of annual water with SMART reduction targets</p>
Economic and other indicators				<p>. % of physical products designed to enable customers to improve their product's circular economy performance</p> <p>. % of plant, property, and equipment (PPE) assets procured with circular procurement approaches</p> <p>. % of plant, property, and equipment (PPE) assets having policies or agreements in place to enable recirculation</p> <p>. % of the following categories screened positively for EU taxonomy circular economy alignment : lending/fixed income/private equity /listed equity (i.e eligibility ?)</p> <p>. % of the following categories going toward financing the circular economy : lending/fixed income/private equity /listed equity (i.e alignment ?)</p>