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Granularity of decarbonization levers & resources – Issues paper

Objectives

- 1 The objective of this session is to agree on a proposed redrafting of ESRS E1 regarding decarbonization levers and resources after taking into account the comments received from the public consultation.
- 2 The rest of the paper is structured as follows:
 - (a) Background information
 - (b) Relevant disclosure requirements of the ESRS E1 exposure draft
 - (c) Feedback received from the public consultation
 - (d) EFRAG Secretariat's analysis and recommendations
 - (e) Questions for EFRAG SR TEG
 - (f) Appendix 1 (Emission reduction table with decarbonization levers)

Background

- 3 During the last five years, a considerable number of undertakings have communicated their emissions reduction targets.
- 4 The purpose of ESRS E1 is to enable users to understand how undertakings reduce their environmental impacts and GHG emissions, and how they assess the resilience of their business model. For this purpose, undertakings should communicate how they may have developed action plans integrated with serious financial planning. This will enhance the credibility of the public claims and targets on GHG emissions reduction and help identify and fight against greenwashing.
- 5 In this context, ESRS E1's requirements for the disclosure of the decarbonization levers and resources represent a key step to improving climate reporting compared to current market practices.

Current content of ESRS E1

- 6 Decarbonization levers are required in the ESRS E1 DRs relating to targets and actions and resources. Some of the requirements outlined below relate to the substance while others relate to the presentation of the information:

E1-1 15 (b) by reference to GHG emission reduction targets (ESRS E1 Disclosure Requirement 3) and the climate change mitigation action plan

(ESRS E1 Disclosure Requirement 4), an **explanation of the decarbonisation levers identified**, and key actions planned, including changes in the undertaking's product and service portfolio and the adoption of new technologies;

E1-3 24 (h) The undertaking shall provide an explanation of the **expected quantitative contributions from different decarbonisation levers** to the achievement of the GHG emission reduction targets (e.g., energy or material efficiency and consumption reduction, fuel switching, use of renewable energy or product and process change, phase out or substitution).

AG 30 (b) ii. the undertaking may present its GHG emission reduction targets as a table or graphical pathway or trajectory over time, including the **contribution of different decarbonization levers** (see AG31). The following figure and table provide examples: (see appendix)

E1-4 28 The undertaking shall disclose its climate change mitigation and adaptation action plans and the resources allocated for their implementation. Action plans are composed of decarbonisation levers.

AG 33 (c) present the climate change mitigation actions **by decarbonisation lever** (ESRS E1 Disclosure Requirement 3)

Feedback from the consultation

Redundancy across the DRs on targets, actions and resources

- 7 Respondents point to the redundancies across the E1-3 and E1-4 requirements regarding the decarbonisation levers and their presentation.

Lack of clarification on the expected granularity of levers/actions and resources

- 8 Some preparers consider the proposed requirements about actions to be either too granular, or could lead to a level of unnecessary granularity, and thus add to the operational complexity and additional cost. Hence, they have suggested the need to clarify the expected granularity and potentially reduce the level of detail required.
- 9 More specifically, some preparers observe that E1-3 24(h) could lead to unnecessary granularity in reporting without adding benefits for users.
- 10 The level of detail of resources required in E1-4 28 is not specified which, according to some respondents, could lead to confusion.

Complexity and confusion in the scope of financial resources (CapEx and OpEx)

- 11 Several of the feedback comments demonstrate that ESRS E1 needs to provide more guidance on and a definition of the term-financial resources. The notion of "resources" in the financial context remains unclear. In order to enable comparable disclosures across undertakings, clarification on the definition is necessary.
- 12 The CapEx and OpEx metrics are not always simple to calculate. Firstly, OpEx is not a financial KPI widely used in practice, and the definition of OpEx in the Taxonomy is not sufficiently clear. Secondly, in practice, action plans and resources might be dedicated to multiple sustainability matters, and it would be complex for undertakings to respectively allocate the resources to climate-related and social-related action plans. It would also be complicated to carve out the CapEx and OpEx allocated to such issues while linking them to otherwise stated financial amounts. Thirdly, the financial system of the undertakings might not be designed to easily generate these two KPIs.

Proposed changes

Presentation of the decarbonization levers

- 13 In order to reduce the reporting burden and clarify the presentation of the information disclosed in a consistent way between targets and actions plans and resources, the EFRAG Secretariat recommends the following:
- (a) the reporting of targets and actions by decarbonization levers be presented in a single table and at an aggregated level, i.e., provide the possibility to merge tables or graphs from AG30 (b) (targets) and AG 33 (c) (actions plan).
 - (b) the decarbonization levers should be defined as aggregated types of mitigation actions (e.g., energy efficiency, use of renewable energy, etc.) and not at the level of facilities or countries.

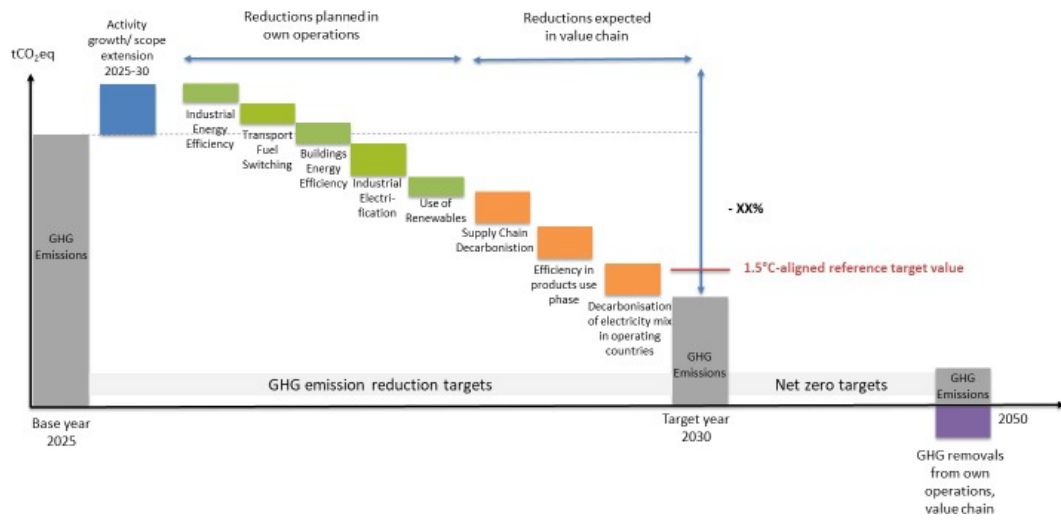
Disclosure requirements on CapEx and OpEx

- 14 Given that the disclosure of resources is necessary for assessing the quality of the undertakings' plans, relating the monetary amounts to the financial statements ensures consistency of the approach and ensures precision in the level of commitment of the company. However, because climate-related OpEx and CapEx may be difficult to derive from the undertaking's financial information systems; EFRAG Secretariat recommends that only significant CapEx and OpEx shall be disclosed and related to the amount presented in the financial statements.
- 15 For the reasons above, the EFRAG Secretariat recommends that the E1-4 30 (b) be modified as follows:
- E1-4 30 (b) relate significant monetary amounts (CapEx and OpEx) to the most relevant amounts presented in the financial statements as well as to the key performance indicators required under article 8 of Taxonomy Regulation (EU) 2020/852 and the CapEx plan required by Commission delegated regulation (EU) 2021/2178 under Commission delegated regulation (EU) 2021/2139.*
- 16 With this proposed change in Par 30(b), EFRAG Secretariat also moves the mandatory consistency with Taxonomy from paragraph AG 35 to the main body which was not the case in the ED.
- 17 And that the E1-4 AG34 be modified as follows:
- When disclosing the information on resources, the undertaking shall only report on significant OpEx and CapEx required for the implementation of the action plans. In addition to ESRS 1 Disclosure Principle 3, the undertaking shall provide...*

Questions to SRB

- 18 Do you agree or disagree with the EFRAG Secretariat proposals for amendment of ESRS E1 that are outlined in paragraphs 13 to 17? Please explain

*Agenda Paper 05. 01 SR TEG 15 September 2022
 – ESRS E1 Granularity of decarbonisation levers and resources*



	Base year (e.g., 2025)	2030	2035	...	Up to 2050
GHG emissions (tCO ₂ eq)	100	60	40		
Energy efficiency and consumption reduction	-	-10	-4		
Material efficiency and consumption reduction	-	-5	-		
Fuel switching	-	-2	-		
Electrification	-	-	-10		
Use of renewable energy	-	-10	-3		
Product change, phase out or substitution	-	-8	-		
Process change, phase out or substitution	-	-5	-3		
Etc.	-	-			