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

Log of draft explanations

Table of content

ID 29 and ID 261 – 'May' and 'shall' reporting requirements

[For information: This ID was objected / parked in the SRB meeting 21. Feb. 2024; it is now represented to WG 1 / SRB]

Question asked

1) What is the meaning of a 'may disclose' in ESRS; how does that relate to a 'shall disclose'?
2) Can you explain based on ESRS Disclosure Requirement S1-12?

In addition, the following more specific questions have been received in ID 261 related to 'may' and 'shall' reporting requirements:

3) Does the materiality assessment take precedence over ESRS 1 paragraph 18?
4) Is an undertaking required to disclose a datapoint that is not material, if it is a 'shall disclose' datapoint?
5) Can an undertaking disregard the disclosure of a 'may disclose' datapoint, if the datapoint is material?
6) What is the relevance of ESRS 1 paragraph 18 if materiality takes precedence over ESRS 1 paragraph 18?

ESRS reference

ESRS 1 paragraphs 18, 77 and 80; ESRS 1 Chapter 1 to 3.5, ESRS 2 paragraph 62 and 72

Key terms: Voluntary disclosure requirements ("may disclose")

Background

ESRS 1 paragraph 18 states: 'ESRS uses the following terms to distinguish between different degrees of obligation on the undertaking to disclose information:

(a) "shall disclose" – indicates that the provision is prescribed by a Disclosure Requirement or datapoint;

(b) "may disclose" – indicates voluntary disclosure to encourage good practice."'

ESRS S1 paragraph 79 of Disclosure Requirement ESRS S1-12 is a 'shall' disclosure and states: 'The undertaking shall disclose the percentage of persons with disabilities amongst its employees subject to legal restrictions on the collection of data.'

ESRS S1 paragraph 80 of Disclosure Requirement ESRS S1-12 is voluntary and states: 'The undertaking may disclose the percentage of employees with disabilities with a breakdown by gender.'

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

In ESRS E1 paragraph AR 32 instead of 'may disclose' the expression 'can disclose' is used as a synonym, see e.g. stating: 'When preparing the information on energy consumption required under paragraph 35, the undertaking shall: … The undertaking that consumes fuel as feedstocks can disclose information on this consumption separately from the required disclosures; …'

Answer

1) ***What is the meaning of a 'may disclose' in ESRS; how does that relate to a 'shall disclose'? Is an undertaking required to disclose a datapoint that is not material, if it is a 'shall disclose' datapoint?***

The drafting convention used in the ESRS is defined in ESRS 1 Chapter 1.3. The terms 'shall disclose' and 'may disclose' are used to distinguish the degree of obligation on the undertaking to disclose information; these are defined in ESRS 1 paragraph 18. The terms 'shall disclose' and 'may disclose' are to be applied in the light of the materiality provisions of ESRS (refer to ESRS 1 Chapter 3.2 to 3.5):

(a) all the 'shall' datapoints in ESRS 2 General Disclosures are to be reported, as they are outside the materiality assessment. This includes the datapoints in topical standards that relate to ESRS 2 Disclosure Requirement IRO-1 *Description of the process to identify and assess material impacts, risks and opportunities* (see ESRS 2 *Appendix C Disclosure and Application Requirements in topical ESRS that are applicable jointly with ESRS 2 General Disclosures*);

(b) if a topic is not material for the undertaking, the 'may' and 'shall' datapoints in the corresponding topical standard are not reported, as the undertaking does not report on non-material topics;

(c) if a topic is material for the undertaking, the 'shall' datapoints in the respective topical standard that relate to ESRS 2 (refer to Appendix C of ESRS 2 for the complete list by topical standard) must be reported;

(d) if a topic is material for the undertaking, the undertaking discloses the information corresponding to the 'shall' datapoints in the topical standard in relation to policies, actions and targets (PAT) as well as the information corresponding to the datapoints in ESRS 2 MDR-P, MDR-A and MDR-T. If the undertaking cannot disclose the information on PAT required under relevant topical ESRS, because such PAT are not in place for the specific material matter, it shall disclose this to be the case and provide reasons for not having PAT. The undertaking may disclose a timeframe in which it aims to adopt them;

(e) if a topic is material for the undertaking, the undertaking discloses the information corresponding to the 'shall' datapoints in the topical standard in relation to metrics if that information is assessed to be material (refer to ESRS 1 paragraph 34), i.e. the undertaking is not required to disclose a 'shall disclose' datapoint that is not material.

(f) if a topic (or a matter) is material for the undertaking, the undertaking decides whether to include or not the 'may' disclosure datapoints related to that matter; however, it is encouraged to disclose it as good practice, but it is not a requirement.

The criteria in paragraph 31 of ESRS 1 (significance of the information and users' needs) are the point of reference to be used when:

(a) defining the granularity of the content of the information provided under points a), c) and d) above; and

(b) assessing the materiality of the information under point e) above.

2) ***Can you explain based on ESRS Disclosure Requirement S1-12?***

Assuming the sub-sub-topic 'employment and inclusion of persons with disabilities' is assessed to be material, the undertaking must disclose the metric 'percentage of persons with disabilities amongst its employees subject to legal restrictions on the collection of data' (ESRS S1 paragraph 79). While this is not a requirement, it may as an optional good practice provide a breakdown by gender (ESRS S1 paragraph 80).

3) ***Does the materiality assessment take precedence over ESRS 1 paragraph 18?***

No, for optional disclosures, the materiality assessment does not take precedence over ESRS 1 paragraph 18. This means that for a topic that is assessed as material (see previous example on S1-12), it is optional but encouraged to disclose a 'may'-datapoint, also if the information pertaining to the datapoint into question is material.

Reference is made to the paragraph in the answer to question 1) above.

4) ***Can an undertaking disregard the disclosure of a 'may disclose' datapoint, if the datapoint is material?***

Yes, see example on ESRS S1-12. This is due to the nature of the 'may' datapoint (voluntary datapoint to encourage good practice).

5) ***What is the relevance of ESRS 1 paragraph 18 if materiality takes precedence over ESRS 1 paragraph 18?***

ESRS 1 paragraph 18 illustrates the nature or drafting convention for the datapoints and it has to be applied in conjunction with the materiality considerations; i.e. the "shall" datapoints are still subject to materiality assessment.

ID 395 – Revenue / net revenue

[Note: This ID is presented the second time to the SRB. In the SRB meeting 24 April 2024 it received comments from the EC that are now included in this version]

Question asked

What does net revenue mean? How is it calculated?

ESRS Reference

All Disclosure Requirements requiring a breakdown of revenue, or an intensity metric based on net revenue. For example: ESRS 2 Disclosure requirement SBM-1 *Strategy, business model and value chain*, paragraph 40 (b); ESRS E1 Disclosure Requirement E1-5 *Energy consumption and mix* paragraph 40; ESRS E1 Disclosure Requirement E1-6 *Gross scopes 1,2,3 and Total GHG emissions* paragraph 53; ESRS Disclosure requirement E3-4 *Water consumption* paragraph 29.

Key terms:

Revenue; net revenue, net turnover

Background

ESRS use the terms 'revenue', 'total revenue', and 'net revenue' as synonyms. ESRS 2 refers to 'revenue' or 'total revenue' (see ESRS 2 Disclosure Requirement SBM-1 – *Strategy, business model and value chain*) whereas ESRS E1 and the other environmental ESRS refer mostly to 'net revenue'.

ESRS E1 paragraph AR36(e) states: 'When preparing the information on energy intensity required under paragraph 40, the undertaking shall calculate the net revenue in line with the accounting standards requirements applicable for the financial statements, i.e., IFRS 15 Revenue from Contracts with Customers or local GAAP requirements.'

ESRS do not use the term 'net turnover' as used by the Accounting Directive (Directive 2013/34/EU Article 2 (5)) The Accounting Directive defines: ' 'net turnover' means the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover; however, for **insurance undertakings** referred to in point (a) of the first subparagraph of Article 1(3) of this Directive, 'net turnover' shall be defined in accordance with Article 35 and point 2 of Article 66 of Council Directive 91/674/EEC; for **credit institutions** referred to in point (b) of the first subparagraph of Article 1(3) of this Directive, 'net turnover' shall be defined in accordance with point (c) of Article 43(2) of Council Directive 86/635/EEC; and for undertakings falling under the scope of Article 40a(1) of this Directive, 'net turnover' means the revenue as defined by or within the meaning of the financial reporting framework on the basis of which the financial statements of the undertaking are prepared'.

The delegated act (EU) 2021/2178 specifying Article 8 of the Taxonomy Directive related to environmental taxonomy disclosures also uses the term 'net turnover' (see Supporting material below).

Answer

The terms 'revenue', 'total revenue', and 'net revenue' are to be understood as the amounts presented in the income statement of its financial statements in accordance with the applicable legislation and/or accounting standards, i.e., IAS 1 paragraph 82 (a)[1] or national generally accepted accounting principles (national GAAP) .

Reference is made to ID 482 *Breakdown of total revenue – financial institutions*.

Supporting material

Delegated act (EU) 2021/2178 supplementing Regulation (EU) 2020/852 specifying the content and presentation to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities and specifying the methodology to comply with that disclosure obligation, Annex I paragraph 1.1.1 (Delegated act specifying article 8 of the Taxonomy Directive) states: '...net turnover (denominator) as defined in Article 2, point (5), of Directive 2013/34/EU. The turnover shall cover the revenue recognised pursuant to International Accounting Standard (IAS) 1, paragraph 82(a), as adopted by Commission Regulation (EC) 1126/20081.'

ID 429 – Entity specific and ESRS 2 Disclosure Requirements

Question asked

When replying to an entity-specific disclosure, which are the datapoints or the Disclosure Requirements to consider from ESRS 2?

ESRS Reference

ESRS 1 paragraphs 11, 30, 60 and 70

Key terms

Entity-specific disclosures.

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[1] Or any future standard superseding IAS 1.

Background

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

In particular ESRS paragraph AR 2 states: 'When developing entity-specific disclosures, the undertaking shall ensure that: … (b) its disclosures include, where applicable, all material information related to the reporting areas of governance; strategy; impact, risk and opportunity management; and metrics and targets (see ESRS 2 chapters 2 to 5).'

ESRS 1 paragraph 30 states: 'When the undertaking concludes that a sustainability matter is material as a result of its materiality assessment on which ESRS 2 IRO-1 IRO-2 and SBM-3 set disclosure requirements it shall:

(a) disclose information according to the Disclosure Requirements (including Application Requirements) related to that specific sustainability matter in the corresponding topical and sector-specific ESRS; and

(b) disclose additional entity-specific disclosures (see paragraph 11 and AR 1 to AR 5 of this Standard) when the material sustainability matter is not covered by an ESRS or is covered with insufficient granularity.'

ESRS 1 paragraph 12 states regarding 'Reporting areas and minimum content disclosure requirements on policies, actions, targets and metrics': 'The Disclosure Requirements in ESRS 2 in topical ESRS and in sector-specific ESRS are structured into the following reporting areas:

(a) Governance (GOV): the governance processes controls and procedures used to monitor manage and oversee impacts, risks and opportunities (see ESRS 2 chapter 2 Governance);

(b) Strategy (SBM): how the undertaking's strategy and business model interact with its material impacts risks and opportunities including how the undertaking addresses those impacts risks and opportunities (see ESRS 2 chapter 3 Strategy);

(c) Impact, risk and opportunity management (IRO): the process(es) by which the undertaking:

    (i) identifies impacts risks and opportunities and assesses their materiality (see IRO-1 in section 4.1 of ESRS 2)

    (ii) manages material sustainability matters through policies and actions (see section 4.2 of ESRS 2).

(d) Metrics and targets (MT): the undertaking's performance including targets it has set and progress towards meeting them (see ESRS 2 chapter 5 Metrics and targets).'

ESRS 2 paragraph 60 on minimum disclosure requirements on policies and actions states: 'This section sets out minimum disclosure requirements to be included when the undertaking discloses information on its policies and actions to prevent, mitigate and remediate actual and potential material impacts, to address material risks and/or to pursue material opportunities (collectively, to "manage material sustainability matters"). They shall be applied together with the Disclosure Requirements, including Application Requirements, provided in the relevant topical and sector-specific ESRS. They shall also be applied when the undertaking prepares entity-specific disclosures.'

ESRS 2 paragraph 70 on metrics and targets states: 'This chapter sets out Minimum Disclosure Requirements that shall be included when the undertaking discloses information on its metrics and targets related to each material sustainability matter. They shall be applied together with the Disclosure Requirements, including Application Requirements, provided in the relevant topical ESRS. They shall also be applied when the undertaking prepares entity-specific disclosures.'

Answer

The datapoints or the Disclosure Requirements from ESRS 2 to consider, if applicable, when replying to an entity-specific disclosure are: ESRS 2 Disclosure Requirement GOV-1 to GOV-5, SBM-1 to SBM-3, IRO-1, and the Minimum Disclosure Requirements on policies and actions respectively on metrics and targets.

ESRS 1 paragraph AR 1 to 5 provide Application Requirements on entity-specific disclosures.

In situations where a sustainability matter is not covered by an ESRS the entity-specific disclosures to consider from ESRS 2 could potentially relate to any reporting area of ESRS 2 (for the reporting areas of ESRS 2 see ESRS 1 paragraph 12):

(a) governance;

(b) strategy;

(c) impact, risk and opportunity management; and

(d) metrics and targets,

insofar as information regarding the entity-specific sustainability matter and its impact, risk and opportunity is relevant (ESRS 1 paragraph 31) and it needs to be disclosed under the ESRS 2 Disclosure Requirements.

Therefore, if applicable, impacts, risks and opportunities of the entity-specific matter could be addressed by the following ESRS 2 Disclosure Requirements:

(a) GOV-1: regarding roles and responsibilities and access to expertise and skills with regards to the entity-specific sustainability matter;

(b) GOV-2: regarding information related to the entity-specific sustainability matter provided to and addressed by the undertaking's administrative, management and supervisory bodies;

(c) GOV-3: regarding integration of the entity-specific sustainability matter in incentive schemes;

(d) GOV-4: regarding entity-specific due diligence processes;

(e) GOV-5: regarding risk management and internal controls over the sustainability process including the entity-specific sustainability matter;

(f) SBM-1: regarding its strategy relating to the entity-specific sustainability matter;

(g) SBM-2: regarding interests and views of stakeholders with respect to the entity-specific sustainability matter;

(h) SBM-3: regarding the description, the interaction with strategy and business model and other information required by paragraph 48 of ESRS 2 on the material impacts, risks and opportunities connected with the entity-specific matter (including ESRS 2 paragraph 48 (h)); and

(i) IRO-1: regarding a description of the process to identify and assess the entity-specific material impacts, risk and opportunities.

In addition (following ESRS 1 AR 2):

a) policies, actions, targets shall be included where applicable, i.e. when the undertaking has them in place to manage the relevant entity-specific matter/IRO;

b) metrics shall be included where applicable. In assessing when this is applicable, the reference is ESRS 1 AR 1: the entity-specific disclosures shall enable users to understand the undertaking's material IROs. In general, to provide a relevant and fair representation of an impact, a risk or opportunity, metrics are useful and should be included. AR 3 supports the determination of when entity-specific metrics are useful, i.e.:

    a. when they support the understanding of (1) how effective the practices are in reducing negative impacts, increasing positive impacts and (2) the likely financial effects arising from risks and opportunities;

    b. when they result in a reliable outcome (see ESRS 1 AR.3 b);

    c. they are accompanied by sufficient contextual information (see ESRS 1 AR 3.c).

ESRS 2 Minimum Disclosure Requirements on policies and actions (ESRS 2 paragraph 60) and for metrics and targets (ESRS 2 paragraph 70) shall be applied in the preparation of this disclosure.

ID 644 - Limits of fossil fuel sector

Category

cross-cutting

Question asked

What are the limits of the fossil fuel sector?

1) Is the petrochemical sector included? Like ethylene production? Many industrial sectors are using products derived from oil or LNG as an input in the production of a chemical product. Will they all be part of the fossil fuel sector? What are the limits?

2) Should an Engineering, Procurement and Construction contractor of a Liquid Natural Gas plant include its Engineering, Procurement, and Construction revenues under this caption?

ESRS Reference

ESRS 2 paragraph 40 d (i)

Key terms

Fossil fuel, sector, scope

Background

ESRS 2 paragraph 40 (d) states: 'where applicable, a statement indicating, together with the related revenues, that the undertaking is active in:

(i) the fossil fuel (coal, oil and gas) sector, (i.e., it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council), including a disaggregation of revenues derived from coal, from oil and from gas, as well as the revenues derived from Taxonomy-aligned economic activities related to fossil gas as required under Article 8(7)(a) of Commission Delegated Regulation 2021/2178;'.

Annex II defines 'fossil fuel' as non-renewable carbon-based energy sources such as solid fuels, natural gas and oil. This definition corresponds to Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council.

Commission Delegated Regulation (EU) 2022/1288 defines 'companies active in the fossil fuel sector' as companies that derive any revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council.

Answer

Whether the undertaking is active in the fossil fuel sector is based on ESRS 2 paragraph 40 (d) (i). Fossil fuels are understood as non-renewable carbon-based energy sources such as solid fuels, natural gas and oil. *[Note: SRB working group member suggests aligning the definition with the definition in underlying regulation - EFRAG secretariat is reviewing.]*

1) Is petrochemical sector included? Like ethylene production? Many industrial sectors are using products derived from oil or LNG as an input in the production of a chemical product. Will they all be part of the fossil fuel sector? What are the limits?

The petrochemical activities, such as ethylene production, can be understood as a part of fossil fuel sector, provided that they fulfil the definition of (EU) 2022/1288.

2) Should an Engineering, Procurement and Construction contractor of an LNG plant include its EPC revenues under this caption?

An EPC (Engineering, Procurement and Construction) contractor of an LNG plant providing services such as the ones described in NACE 71.12 'Engineering activities and related technical consultancy', or NACE division 42 'Civil engineering' that includes construction of industrial facilities, e.g. refineries is not considered active in fossil fuels sector, provided that it does not derive any revenues from the activities described above.

ID 733– Overlap of ESRS 2 and topical standards?

Category

Cross-cutting

Question asked

Can the ESRS 2 datapoints be overlapping with those in topical standards? What would be the scope of information the preparer is expected to provide within ESRS 2 (that are distinctive of topical standards datapoints)?

ESRS Reference

ESRS 1 paragraph 115; ESRS 2 paragraph 2 and Appendix C; and Disclosure Requirements related to ESRS 2 in the topical ESRS

Key terms

Location of information; four parts of the sustainability statement, structure of the sustainability statement

Background

ESRS 1 paragraph 115 states: 'The undertaking shall structure its sustainability statement in four parts in the following order: **general information**, environmental information, … social information, and governance information. Respecting the provision in section 3.6 Material impacts or risks arising from actions to address sustainability matters of this Standard when information provided in one part contains information to be reported in another part the undertaking may refer in one part to information presented in another part avoiding duplications. …'

ESRS 2 paragraph 2 states: 'In the preparation of disclosures under this Standard, the undertaking shall apply the Disclosure Requirements (including their datapoints) set in topical ESRS, as listed in Appendix C of this Standard *Disclosure/Application Requirements in topical ESRS that are applicable in conjunction with ESRS 2 General Disclosures*. The undertaking shall apply the requirements listed in Appendix C:

(a) in all instances for the requirements in topical standards related to Disclosure Requirement IRO-1 Description of the processes to identify and assess material impacts, risks and opportunities; and

(b) for all other requirements listed in appendix C, only if the sustainability topic is material based on the undertaking's materiality assessment (see ESRS 1 chapter 3 Double materiality as the basis for sustainability disclosures).'

Answer

No, the ESRS 2 Disclosure Requirements are not overlapping with the Disclosure Requirements in topical ESRS with the exception of the Minimum Disclosure Requirements (MDR) in ESRS 2 chapter 4.2 *Minimum disclosure requirement on policies and actions* and chapter 5 *Metrics and targets*.

The MDR may overlap by definition with those in the topical standards as they are a checklist to be used for completeness: I.e. when a datapoint in MDR is already covered by a topical standard, undertakings are not supposed to report twice the same information.

Some Disclosure Requirements in the topical ESRS (labelled as 'Disclosure Requirement related to ESRS 2 GOV-1; GOV-3; SBM-2; SBM-3; or IRO-1 …' in the respective topical ESRS; see Appendix C of ERSR 2) further specify the ESRS 2 disclosures in relation to the respective topical matter (see ESRS 2 paragraph 2).

The ESRS 2 disclosures together with their specifications in topical ESRS are expected to be disclosed as part of the general information of the sustainability statement. To avoid duplications an undertaking may refer in one part of the sustainability statement to information presented in another part as stated in ESRS 1 paragraph 115. Reference is made to ID 296 - *Location of ESRS 2 related Disclosure Requirement of topical standards*.

ID 781 - General Meeting

Category

Cross-cutting

Question asked

Is the General Meeting to be considered as an "administrative, management and supervisory body"? The General Meeting is usually a company's highest decision-making body. However, it seems that the General Meeting is not mentioned once in any EFRAG materials, such as Q&A's, and the focus is on the Board of Directors and its committees, and the CEO.

ESRS Reference

ESRS 2 GOV-1

Key terms

Categorisation of the General Meeting

Background

Annex II of the ESRS defines 'administrative, management and supervisory bodies' as follows: 'The governance bodies with the highest decision-making authority in the undertaking including its committees. If in the governance structure, there are no members of the administrative, management or supervisory bodies of the undertaking, the CEO, and if such function exists, the deputy CEO, should be included. In some jurisdictions, governance systems consist of two tiers, where supervision and management are separated. In such cases, both tiers are included under the definition of administrative, management and supervisory bodies.'

In contrast, the general meeting is a mandatory annual meeting, in which an undertaking's shareholders or owners exercise their decision-making powers. Matters within the decision-making power of the general meetings include the matters provided for in law or the articles of association, such as the remuneration and appointment of directors and auditors, adoption of the company's financial statements, distribution of assets, discharge from liability of the executives, amendments to the articles of association, and decisions relating to the company's shares or share capital.

The Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings makes a clear distinction between the general meeting (or shareholder meeting) and the administrative, management and supervisory bodies and their committees.

Additionally, national Corporate Governance Codes make a similar distinction and provide guidance and recommendations regarding best practices for both the general meeting and the administrative, management and supervisory bodies.

Answer

No, the General Meeting should not be considered an 'administrative, management and supervisory body'. It is a separate governance body with specific powers attributed to shareholders or owners. The general meeting is not addressed by ESRS but instead by the Accounting Directive using however the term 'shareholder meeting'- with respect to the Corporate Governance Statement - and by the national Corporate Governance codes.

Environment

ID 338 – Activities in high climate impact sectors

Question asked

How should the sentence 'associated with activities in high climate impact sectors' be understood? Does it exclusively refer to the sectors in which the reporting undertaking itself operates?

ESRS reference

ESRS E1 paragraphs 38, 40 and AR36 (c); ESRS 2 paragraphs 40 (b), 40 (c) and AR 13

Background

ESRS E1 mentions the Commission Delegated Regulation (EU) 2022/1288 Annex I (9) when referring to the definition of "high climate sectors".

According to Commission Delegated Regulation (EU) 2022/1288 Annex I (9), "high impact climate sectors" means the sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006 of the European Parliament and of the Council.

ESRS E1 paragraph 38 states that the undertaking with operations in high climate impact sectors shall further disaggregate their total energy consumption from fossil sources by:

(a) fuel consumption from coal and coal products

(b) fuel consumption from crude oil and petroleum products

(c) fuel consumption from natural gas

(d) fuel consumption from other fossil sources

(e) consumption of purchased or acquired electricity, heat, steam, or cooling fromfossil sources

ESRS E1 paragraph 40 states that the undertaking shall provide information on the energy intensity (total energy consumption per net revenue) associated with activities in high climate impact sectors.

ESRS E1 paragraph AR 36 (a) provides the calculation formula in which total energy consumption from activities in high climate impact sectors is in numerator, while net revenue from activities in high climate impact sectors is in a denominator. Moreover, the point (c) of this AR clarifies that the numerator and denominator shall only consist of the proportion of the total final energy consumption (in the numerator) and net revenue (in the denominator) that are attributable to activities in high climate impact sectors. Finally, this point provides that in effect, there should be consistency in the scope of both the numerator and denominator.

Answer

According to Commission Delegated Regulation (EU) 2022/1288 Annex I (9), high climate impact sectors are those listed in NACE Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006 of the European Parliament and of the Council. The list of targeted sections is:

Section A: Agriculture, forestry and fishing (NACE division 01-03)

Section B: Mining and quarrying (NACE division 05-09)

Section C: Manufacturing (NACE division 10-33)

Section D: Electricity, gas, steam and air conditioning supply (NACE division 35)

Section E: Water supply; Sewerage, waste management and remediation activities (NACE division 36-39)

Section F: Construction (NACE division 41-43)

Section G: Wholesale and retail trade; Repair of motor vehicles and motorcycles (NACE division 45-47)

Section H: Transportation and storage (NACE division 49-53)

Section L: Real estate activities (NACE division 68)

It is important to note that the high climate impact sectors are determined at the NACE code activity level (linked to the undertaking's own operations) and not by the undertaking (ESRS) sector(s) of activity (as defined in ESRS 2 paragraph 40(b), 40(c) and AR13.

ID 422 - Disclosure of monetary amount

Category

Environment

Question asked

Is the disclosure of monetary amount and proportion of assets at risk over the short/medium/long-term meant to be broken down by the time horizon (short/medium/long) or a single aggregate number for assets at risk at any of those time horizons?

ESRS Reference

ESRS E1 paragraphs 66 and 67

Background

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

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

ESRS E1 paragraph 67 states that the disclosure of anticipated financial effects from material transition risks required by paragraph 64 (b) shall include: …

(b) the monetary amount and proportion (percentage) of assets at material transition risk over the short-, medium- and long-term before considering climate mitigation actions.

As stated in both articles, the undertaking shall disclose the monetary amount and proportion of assets at risk considering the different time horizons (short-, medium- and long-term). Guidance on how to calculate these figures can be found in E1 AR 70 to E1 AR76 and clarify that the proportion can be done as a single amount or range.

ESRS E1 paragraph AR 70 (a) states that "The estimate of monetary amounts and proportion of assets at physical risk may be presented as either a single amount or range." And ESRS E1 AR 73 (a) that "an estimate of the amount of potentially stranded assets (in monetary amounts and as a proportion/percentage) from the reporting year until 2030 and from 2030 to 2050 … may be expressed as a range of asset values based on different climate and policy scenarios".

Answer

ESRS E1 paragraphs 66 and 67 do not require a breakdown of monetary amount figures into the three-time horizons. It rather requires the disclosure of a monetary amount that is the result of cumulative financial effects assessed for each of the time horizons (short-, medium-, and long-term).

For example, the undertaking shall evaluate the assets at material physical risk considering short-, medium- and long-term physical climate risks. As the time span increases, the likelihood of certain climate events impacting the assets is also expected to increase – either because the events become more frequent or because the period for which they can materialize has become larger. For this reason, when doing the analysis from the short to long-term perspective, more assets are likely to be impacted. These are then accounted for with the carrying value in the financial statement at the reporting date (ESRS E1 paragraph AR 70) and their carrying value is added up to a single amount and reported for each of the time horizons (short, medium and long-term). To provide more contextual information, the undertaking may disclose the expected carrying value of the assets at the time when the climate effect will materialise, taking into account the amortisation schedule. When identifying the amount and share of current assets that may be at risk, the time horizons (short, medium and long-term) should be considered. If applying different scenarios or there is higher uncertainty on assets at risk in the medium or long term, the disclosure can be provided as a range (ESRS E1 paragraphs AR 70(a) and 73(a)). A breakdown by time horizon is not required but may be reported.

When reporting this information preparers can consider the proportionality principle. Information on climate-related risks over the long-term is useful for giving direction. However, while the likelihood of certain climate events can be expected to increase over time, long-term climate information remains uncertain in varying degrees. It is, therefore, difficult for an undertaking to anticipate and adapt financially beyond 5-10 years both credibly and verifiably. Consequently, the quality and purpose differ between short-term and long-term information.