Log of draft explanations

Table of content

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

Category

Cross-cutting

Question asked

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

ESRS Reference

ESRS 1 paragraphs 13, 115 and AR 18; ESRS 1 chapter 3.6 *Material impacts or risks arising from actions to address sustainability matters;* ESRS 2 paragraphs 61 and 71

Key terms

Structure of the sustainability statement; policies, actions and targets

Background

[The question received, 'In relation to MDR on policies, actions and targets, should the undertaking report, in each topical standard, one or multiple policies, actions and targets? If so, should the undertaking report topical datapoints related to each policy, action or target in one block or for each policy?' was modified to be able to address it more precisely and to add more nuance to the question.]

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

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

ESRS 1 paragraph AR 18 states: 'As an illustration for paragraph 115 in section 8.2 *Content and structure of the sustainability statement* of this Standard, the undertaking that covers environmental and social matters in the same policy may cross-refer. That means that the undertaking may report on the policy in its environmental disclosures and cross-refer to it from the relevant social disclosures or vice versa. Consolidated presentation of policies across topics is allowed.'

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

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

ESRS 1 chapter 3.6 states in its paragraphs 52 and 53:

'52. The undertaking's materiality assessment may lead to the identification of situations in which its actions to address certain impacts or risks, or to benefit from certain opportunities in relation to a sustainability matter, might have material negative impacts or cause material risks in relation to one or more other sustainability matters. For example:

(a) an action plan to decarbonise production that involves abandoning certain products might have material negative impacts on the undertaking's own workforce and result in material risks due to redundancy payments; or

(b) an action plan of an automotive supplier to focus on the supply of e-vehicles might lead to stranded assets for the production of supply parts for conventional vehicles.

53. In such situations, the undertaking shall:

(a) disclose the existence of material negative impacts or material risks together with the actions that generate them, with a cross-reference to the topic to which the impacts or risks relate; and

(b) provide a description of how the material negative impacts or material risks are addressed under the topic to which they relate.

Answer

(a) In relation to Minimum Disclosure Requirements (MDR) on policies, actions and targets, shall the undertaking report them:

a) all aggregated in three blocks each for policies, actions, and targets; or

b) disaggregated, i.e., each policy together with the related action(s) and target(s)?

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

ESRS do not prescribe the structure of the sustainability statement in further detail. Both alternatives are possible provided that the qualitative characteristics of information (see ESRS 1 chapter 2) are met. A combination of approach (a) and (b) is also possible. Reference from one part of the sustainability statement to another is allowed, avoiding duplications (ESRS 1 paragraph 115).

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

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

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

ID 821 – Risk and opportunity for financial materiality

Category

Cross-cutting

Question asked

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

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

ESRS Reference

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

Key terms

Financial materiality; sustainability matters generating sustainability risks or opportunities

Background

ESRS 1 paragraphs 49 to 51 state: '

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

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

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

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

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

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

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

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

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

Answer

When the nature of an opportunity or a risk relating to one sustainability matter are different, they shall be assessed separately.

In the example provided, the submitter notes that he concluded that energy consumption is a source of (financial) risk, because the cost of energy can fluctuate significantly (upside and downside price risk). However, he has also identified an investment opportunity, in terms of reduced energy costs, if the company invests in renewable energy and energy-efficient appliances.

In financial terms, the undertaking that is exposed to a risk (higher prices for supplies; lower prices for sold products) than expected, is also exposed to positive deviations, when prices for supplies / (sold products) will be below / (above) expectations. The positive deviations are not necessarily identified as separate opportunities but assessed together with the risk. In the example above it is the action of investing in renewable energy that creates the opportunity to reduce energy expenses.

Supporting material

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

ID 863 – Metrics calculation – annual average

Category

Cross-cutting

Question asked

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

ESRS Reference

ESRS 1 chapter 2 and paragraph 89; all topical ESRS

Key terms

Metrics calculation; annual average

Background

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

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

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

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

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

ESRS 1 paragraph 89 states: 'The use of reasonable assumptions and estimates, including scenario or sensitivity analysis, is an essential part of preparing sustainability-related information and does not undermine the usefulness of that information, provided that the assumptions and estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an assumption or estimate from providing useful information or meeting the qualitative characteristics of information (see Appendix B of this Standard).'

Answer

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

Some metrics require the calculation of annual averages (e.g., ESRS S1 Disclosure Requirement S1-6 – *Characteristics of the undertaking's employees*). ESRS do not prescribe how to calculate annual averages as long as the calculation method results in information that meets the qualitative characteristics of information (ESRS 1 Chapter 2; see also ESRS 1 paragraph 89).

Supporting material

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

ID 906 – Structure of sustainability statement – annex / appendix possible?

Category

Cross-cutting

Question asked

Is there a possibility to implement an "Appendix" as another part of the sustainability statement (mainly for the content index, EU datapoint table etc.)?

ESRS references

ESRS 1 chapter 8.2; ESRS 2 paragraphs 56 and 119

Key terms

Structure of sustainability statement; content index; EU-datapoint table; potential appendix

Background

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

ESRS 2 paragraph 56 states: 'The undertaking shall include a list of the Disclosure Requirements complied with in preparing the sustainability statement, following the outcome of the materiality assessment (see ESRS 1 chapter 3), including the page numbers and/or paragraphs where the related disclosures are located in the sustainability statement. This may be presented as a **content index**. The undertaking shall also include a table of all the **datapoints that derive from other EU legislation** as listed in Appendix B of this standard, indicating where they can be found in the sustainability statement and including those that the undertaking has assessed as not material, in which case the undertaking shall indicate "Not material" in the table in accordance with ESRS 1 paragraph 35.'

ESRS 1 paragraph 119 states: 'Provided that the conditions in paragraph 120 are met, information prescribed by a Disclosure Requirement of an ESRS, including a specific datapoint prescribed by a Disclosure Requirement, may be incorporated in the sustainability statement by reference to:

(a) **another** section of the management report;
(b) the financial statements;
(c) the corporate governance statement (if not part of the management report);
(d) …'

ESRS 1 paragraph 120 states: 'The undertaking may incorporate information by reference to the documents, or part of the documents, listed in paragraph 119, provided that the disclosures incorporated by reference:

(a) constitute a separate element of information and are clearly identified in the document concerned as addressing the relevant Disclosure Requirement, or the relevant specific datapoint prescribed by a Disclosure Requirement;
(b) are published before or at the same time as the management report;
(c) are in the same language as the sustainability statement;
(d) are subject to at least the same level of assurance as the sustainability statement; and
(e) meet the same technical digitalisation requirements as the sustainability statement.

Answer

It is possible to have the content index and the EU datapoint table as another section of the management report.

The sustainability statement shall consist of four parts (ESRS 1 paragraph 56). The first part is related to general information. As the content index and the datapoints that derive from other EU legislation are part of the ESRS 2 Disclosure Requirement IRO-2 – *Disclosure Requirements in ESRS covered by the undertaking's sustainability statement* they need to be included in the part related to general information. However, information can, subject to the incorporation by reference requirements of ESRS 1 paragraph 120, also be placed in 'another section of the management report' (ESRS 1 paragraph 119 (a)).

Reference is made to ID 628 *Content index.*

ID 910 – Transitional provisions for value chain and Scope 3 GHG emissions

Category

Cross-cutting

Question asked

Can the transitional provision in ESRS 1 paragraph 132 to 135 be applied to the reporting of Scope 3 emissions in ESRS E1 paragraph 44 (c)?

ESRS Reference

ESRS 1 paragraphs 132 to 135, ESRS 1 Appendix C: *List of phased-in Disclosure Requirements*; ESRS 2 Appendix B*: List of datapoints in cross-cutting and topical standards that derive from other EU legislation*; and ESRS E1 paragraph 44 (c)

Key Terms

Value chain, transitional provisions, Scope 3 GHG emissions

Background

ESRS E1 paragraph 44 states: 'The undertaking shall disclose in metric tonnes of CO2eq its:

(a) gross Scope 1 GHG emissions;
(b) gross Scope 2 GHG emissions;
(c) gross Scope 3 GHG emissions; and
(d) total GHG emissions.'

ESRS 1 paragraph 133 states: 'For the first 3 years of its sustainability reporting under the ESRS, in order to take account of the difficulties that undertakings may encounter in gathering information from actors throughout their ***value chain*** and in order to limit the burden for SMEs in the value chain:

(e) when disclosing information on ***policies, actions*** and ***targets*** in accordance with ESRS2 and other ESRS, the undertaking may limit upstream and downstream value chain information to information available in-house, such as data already available to the undertaking and publicly available information; and
(f) when disclosing ***metrics***, the undertaking is not required to include upstream and downstream value chain information, except for datapoints derived from other EU legislation, as listed in ESRS 2 Appendix B.'

Answer

No, the transitional provisions outlined in ESRS 1 paragraphs 132 to 135 cannot be applied to reporting Scope 3 emissions as required by ESRS E1 paragraph 44 (c). A phase-in exception applies to undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year.

The disclosure of Scope 3 emissions is a datapoint derived from EU legislation, as indicated in ESRS 2 Appendix B (Disclosure Requirement and related datapoint: ESRS E1-6 Gross Scope 1, 2, 3 and Total GHG emissions paragraph 44). Despite the transitional provisions of ESRS 1 paragraph 133 (b), datapoints derived from EU legislation, such as Scope 3 emissions, shall be reported.

It is however to note that: 'undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the datapoints on Scope 3 emissions and total GHG emissions for the first year of preparation of their sustainability statement' (see ESRS 1 Appendix C: *List of phased-in Disclosure Requirements*).

ID 268 – GHG emissions reporting

Category

Environment

Question asked

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

ESRS reference

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

Background

The original question submitted is the following: 'GHG Emission Gross - scope 1-3- I would like to know if corporates need to update and disclose their ghg emissions each year to comply with the CSRD reporting?'

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

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

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

ESRS 1 Appendix C: *List of phased-in Disclosure Requirements* includes reference to E1-6 Disclosure Requirement, indicating that undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the datapoints on scope 3 emissions and total GHG emissions for the first year of preparation of their sustainability statement.

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

Answer

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

With regard to Scope 3 GHG emissions, more specifically, the update of Scope 3 GHG emissions in each significant category shall occur every year on the basis of current activity data; the update of the full Scope 3 GHG inventory is required at least every three years or on the occurrence of a significant event or a significant change in circumstances (see ESRS E1 paragraph AR 46(f)).

ID 414 – Disaggregation of total emissions

Category

Environment

Question asked

Should ESRS E1 paragraph AR 48 including the table for disaggregating total emissions be interpreted as a mandate that all disclosers use the given table (as suggested using 'shall')? If so, could the meaning of the columns be more clearly specified?

ESRS Reference

ESRS E1 paragraph AR 48

Background

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

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

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

ESRS E1 paragraph AR 25 requires that when setting new targets, the undertaking select a recent base year that does not precede the first reporting year of the new target period by more than three years. For example, for 2030 as the target year and a target period between 2025 and 2030, the base year shall be selected from the period between 2022 and 2025. For the following five-year period, the base year should be 2030. If early reductions have been achieved, these should be explained in another table or by adding new columns. Further explanations are available at to ID 531 *GHG emission reduction targets – base year*.

ESRS 1 Chapter 7.1 *Presenting comparative information* states: 'The undertaking shall disclose comparative information in respect of the previous period for all quantitative metrics and monetary amounts disclosed in the current period.' That is, the undertaking shall present previous reporting year data for comparison purposes in the third 'comparative' column.

In column N (fourth column), the undertaking presents the current reporting year figures, and in the fifth column it shall present the percentage reduction/increase of the value in the current year over the previous year.

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

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

Answer

Yes, the undertaking is required to disclose its total GHG emissions disaggregated by Scopes 1 and 2 and significant Scope 3 in accordance with the table provided in ESRS E1 paragraph AR 48. Note that the undertaking is only required to fill the cells of the table that are applicable to the undertaking, meaning that for Scope 3 only significant categories (see ESRS E1 paragraph AR 46) are to be disclosed and that the cells under 'Milestones and target years' are to be filled according to the targets set by the undertaking.

The columns of the table are the following:

The base year: for reporting the value of the metric in the base year against which progress towards the target is measured

Comparative year: for reporting the previous year's (compared to the reporting year's) value for the metric

N: the value for the metric in the current year

% N/N-1: percentage reduction/increase from previous year

2025: value of target for the metric in year 2025

2030: value of target for the metric in year 2030

(2050): value of interim targets set for the metric in the years between 2035 and 2050

Annual % target/base year: report on the average annual emission reduction figure achieved so far by using the following formula:

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

ID 535 – Emission trading schemes

Category

Environment

Question asked

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

Reference

ESRS E1 paragraphs 48 (b) and AR 44

Key terms

Emission trading schemes

Background

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

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

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

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

$$\frac{\textit{GHG Emissions in (t CO2eq) from EU ETS installations + national ETS installations + non EU ETS installations}}{\textit{Scope 1 GHG emissions (t CO2eq)'}}$$

CDP provides a list of ETS's around the world that can be found in the guidance to question '3.5.2 - Provide details of each Emissions Trading Scheme (ETS) your organization is regulated by' of 'CDP Full Corporate Questionnaire' (version May 2024).

Answer

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

Alberta TIER - ETS,

Australia ERF Safeguard Mechanism - ETS,

Austria – ETS,

BC GGIRCA - ETS,

Beijing pilot ETS ,

California CaT - ETS,

Canada federal OBPS - ETS,

China national ETS ,

Chongqing pilot ETS,

EU ETS,

Fujian pilot ETS,

Germany ETS,

Guangdong pilot ETS,

Hubei pilot ETS ,

Indonesia ETS,

Kazakhstan ETS,

Korea ETS,

Massachusetts state ETS,

Mexico pilot ETS,

Montenegro ETS,

New Brunswick ETS,

New Zealand ETS,

Newfoundland and Labrador PSS – ETS,

Nova Scotia CaT - ETS,

Ontario EPS - ETS,

Oregon ETS ,

Québec CaT - ETS,

RGGI - ETS,

Saitama ETS ,

Sakhalin ETS,

Saskatchewan OBPS - ETS,

Shanghai pilot ETS,

Shenzhen pilot ETS,

Switzerland ETS,

Tianjin pilot ETS,

Tokyo CaT - ETS,

UK ETS,

Vietnam ETS,

Washington CAR - ETS]

ID 536 – Carbon credit – Quality standard

Category

Environment

Question asked

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

Reference

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

Key terms

Carbon credits, quality standard

Background

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

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

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

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

(a) Consider recognised quality standards; …'

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

Annex II List of Acronyms and Defined Terms defines 'carbon credits': 'A carbon credit is a convertible and transferable instrument representing GHG emissions that have been reduced, avoided or removed through projects that are verified according to recognised quality standards. Carbon credits can be issued from projects within (sometimes referred to as insets) or outside an undertaking's value chain (sometimes referred to as offsets).'

Answer

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

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

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

ID 555- Financial effects and climate risk

Category

Environment

Question asked

Please, provide more clarity around the requirement to report the anticipated financial effects from chronic and acute physical risks in relation to climate change! The CSRD and ESRS language is not very clear on whether the requirement is to report the financial effects of the expected damage and loss from chronic and acute physical risk or to simply report the monetary amount of the values of the assets themselves that are exposed to chronic and acute physical risk.

[Note that the question has been edited for clarity.]

Reference

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

Key terms

Physical climate risk; financial impacts

Background

The original question submitted is the following: Provide more clarity around the requirement to report the anticipated financial effects from chronic and acute physical risks in relation to climate change. The CSRD and ESRS language is not very clear on whether the requirement is to report the monetary amount of the expected damage and loss from chronic and acute aspects or to simply report the monetary amount of the values of the assets themselves that see chronic or acute exposure.

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

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

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

(a) calculate the assets at material physical risk in terms of monetary amount and as a proportion (percentage) of total assets at the reporting date (i.e., the proportion is an estimate of the carrying value of assets at material physical risk divided by total carrying value as stated in the statement of financial position or balance sheet). The estimate of assets at material physical risk shall be derived starting from the assets recognised in the financial statements ... To contextualise this information, the undertaking shall:

    i. disclose the location of its significant assets at material physical risk. Significant assets located in the EU territory shall be aggregated by NUTS codes 3 level digits (Nomenclature of Territorial Units for Statistics). For significant assets located outside the EU territory, the breakdown by NUTS code will only be provided where applicable …

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

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

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

Answer

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

The requirement to disaggregate the monetary amounts of assets by acute and chronic physical risk (see ESRS E1 paragraph 66(a)) stems from the requirements detailed by the Commission Implementing Regulation (EU) 2022/2453 Template 5: Banking book – Climate change physical risk: Exposures subject to physical risk (note that this regulation uses the term 'financial impact'). This regulation states that the undertaking is required to disclose:

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

ID 636 – Definition of types of removals

Category

Environment

Question asked

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

ESRS reference

ESRS E1 paragraph AR 58

Key terms

Removals, biogenic, land use, technological, hybrid

Background

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

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

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

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

The ESRS Glossary defines 'GHG removal and storage' as '(Anthropogenic) Removals refer to the withdrawal of GHGs from the atmosphere as a result of deliberate human activities. These include enhancing biological sinks of CO2 and using chemical engineering to achieve long-term removal and storage. Carbon capture and storage (CCS) from industrial and energy-related sources, which alone does not remove CO2 in the atmosphere, can reduce atmospheric CO2 if it is combined with bioenergy production (BECCS). Removals can be subject to reversals, which are any movement of stored GHG out of the intended storage that re-enters the surface and atmosphere. For example, if a forest that was grown to remove a specific amount of CO2 is subject to a wildfire, the emissions captured in the trees are reversed'.

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

Answer

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

- *Biogenic removal and storage* refers to ***GHG removal and storage*** as defined in ESRS, which is classified as biogenic. This is produced by living organisms or biological processes but not fossilized or from fossil sources. One example is forest restoration. For a detailed explanation of 'biogenic', the undertaking can refer to the GHG Protocol (e.g., GHG Product LCA and Reporting standard: 'Biogenic removals are due to the uptake of CO_2 by biogenic materials during photosynthesis, while non-biogenic removals only occur if CO_2 is removed from the atmosphere by a non-biogenic product during its production or use stage …'.
- *Removal and storage from land use* refers to ***GHG removal and storage*** as defined in ESRS resulting from ***land-use***, which is defined, too, in ESRS (see background). Additionally, ESRS E1 AR 57(b) provides examples of such activities (afforestation, reforestation, forest restoration, urban tree planting, agroforestry, building soil carbon). Also, the undertaking can refer to the GHG Product LCA and Reporting standard (2011) and the GHG Protocol for Project Accounting standard (2005) that speaks to GHG removals due to land-use change.
- *Technological removal and storage* refers to ***GHG removal and storage*** as defined in ESRS, which results from use of technology. Such activities may resemble examples provided in ESRS E1 AR 57(b) (direct air capture). The undertaking may refer to Annex A in the (draft) GHG Protocol Land Sector and Removals Guidance for additional information.
- *Hybrid removal and storage* refers to ***GHG removal and storage*** as defined in ESRS, which results from combining the use of technology with biogenic removals. ESRS E1 AR 57(b) provides an example of this activity (bioenergy with CO2 capture and storage).

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

ID 718 – Disaggregation of GHG emissions

Category

Environment

Question asked

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

ESRS Reference

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

Key terms

GHG emissions, disaggregation

Background

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

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

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

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

ESRS E1 paragraph AR 43 requires a disclosure on biogenic emissions of CO_2 emissions from the combustion or biodegradation of biomass separately from Scope 1 GHG emissions, ESRS E1 paragraph AR 45 requires it separately from Scope 2 GHG emissions and ESRS E1 paragraph AR 46 separately from Scope 3 GHG emissions.

Answer

ESRS E1 paragraphs AR 43, 45 and 46 require disclosure of biogenic emissions of CO_2 emissions from the combustion or biodegradation of biomass separately from the Scope 1, 2 and 3 GHG emissions.

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

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

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

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

ID 802 - Reference lists of biodiversity-sensitive areas

Category

Environment

Question asked

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

ESRS Reference

ESRS E4-5 paragraph 35

Key terms

Biodiversity-sensitive areas

Background

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

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

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

The World Database on Protected Areas (WDPA) is the most comprehensive global database of marine and terrestrial protected areas. It is a joint project between UN Environment Programme and the International Union for Conservation of Nature (IUCN), and is managed by UN Environment Programme World Conservation Monitoring Centre (UNEP-WCMC), in collaboration with governments, non-governmental organisations, academia and industry.

Answer

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

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