Log of draft explanations

Table of content

Cross-Cutting 2
ID 284 and 787 – Sustainability reporting rules for consolidation? 2
ID 429 – Entity specific and ESRS 2 Disclosure Requirements 4
ID 644 - Limits of fossil fuel sector 7
ID 728 - Representation of employees and other workers 8
ID 733– Overlap of ESRS 2 and topical standards? 9
ID 781 - General Meeting 10
ID 821 – Risk and opportunity for financial materiality 11
Environment 13
ID 338 – Activities in high climate impact sectors 13
ID 422 - Disclosure of monetary amount 14

Cross-Cutting

ID 284 and 787 – Sustainability reporting rules for consolidation?

Category

Cross-cutting

Question asked

- Are there sustainability reporting rules for consolidation and if so, what are they?
- When does financial control, when operational control apply?

ESRS Reference

ESRS 1 paragraphs 62 and 67;

Key terms

Sustainability rules for consolidation; operational control

Background

The following questions were received, amended, and bundled as stated above:

ID 284: How should joint venture (or associates) employees be taken into account in the sustainability statement? This question mentioned in the background provided by the submitter financial and operational control in respect of joint ventures and associates and how this relates to ESRS S1 *Own workforce* and ESRS S2 *Workers in the value chain*.

ID 787: Are there precise criteria on how companies should consolidate? Is it financial or operational consolidation? The relevant background provided with that question was: Four companies owned by the same stakeholders, same type of activities. They consolidate financially two of the four companies. But the same people operate them. Do they need to consolidate the rest?

The Glossary of terms defines operational control: 'Operational control (over an entity, site , operation or asset) is the situation where the undertaking has the ability to direct the operational activities and relationships of the entity, site , operation or asset.'

ESRS E1 paragraph 46 states (Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions): 'When disclosing the information on ***GHG emissions*** required under paragraph 44, the undertaking shall refer to ESRS 1 paragraphs from 62 to 67. In principle, the data on GHG emissions of its associates or joint ventures that are part of the undertaking's upstream and downstream value chain (ESRS 1 Paragraph 67) are not limited to the share of equity held. For its associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), the undertaking shall include the GHG emissions in accordance with the extent of the undertaking's **operational control** over them.'

ESRS E1 paragraph 50 states: 'For Scope 1 and Scope 2 emissions disclosed as required by paragraphs 44 (a) and (b) the undertaking shall disaggregate the information, separately disclosing emissions from:

(a) the consolidated accounting group (the parent and subsidiaries); and

(b) investees such as associates, joint ventures, or unconsolidated subsidiaries that are not fully consolidated in the financial statements of the consolidated accounting group, as well as contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), for which it has operational control.'

ESRS E2 paragraph 29 states (Disclosure Requirement E2-4 Pollution of air, water and soil): The amounts referred in paragraph 28 shall be consolidated amounts including the emissions from those facilities over which the undertaking has financial control and those over which it has **operational control**. The consolidation shall include only the emissions from facilities for which the applicable threshold value specified in Annex II of Regulation (EC) No 166/2006 is exceeded.'

ESRS E4 paragraph 16 states (Disclosure Requirement SBM 3 – Material impacts, risks and opportunities and their interaction with strategy and business model): 'The undertaking shall disclose:

(a) a list of material sites in its own operations, including sites under its operational control, based on the results of paragraph 17(a). The undertaking shall disclose these locations by: …'

ESRS 1 paragraph 62 states: 'The sustainability statement shall be for the same reporting undertaking as the financial statements. For example, if the reporting undertaking is a parent company required to prepare consolidated financial statements the sustainability statement will be for the group.'

ESRS 1 paragraph 67 states: 'When associates or joint ventures accounted for under the equity method or proportionally consolidated in the financial statements are part of the undertaking's value chain for example as suppliers the undertaking shall include information related to those associates or joint ventures in accordance with paragraph 63 consistent with the approach adopted for the other business relationships in the value chain. In this case when determining impact metrics the data of the associate or joint venture are not limited to the share of equity held but shall be taken into account on the basis of the impacts that are connected with the undertaking's products and services through its business relationships.'

Answer

1) ***Are there sustainability reporting rules for consolidation and if so, what are they?***

The sustainability statement are prepared for the same reporting undertaking as defined for the financial statements, based on financial accounting guidance (IFRS or national GAAP as the case might be) adopted for consolidated financial statements.

ESRS sustainability statement covers the material impacts, risks and opportunities of the entities, assets and sites included in the consolidated financial statements. Material impacts that arise from activities that are internal to the group are also to be reported (e.g. material matters arising from an IT servicing company that provides services solely to the entities of the group and as such does not produce revenues in the consolidated financial statements). If there are material financial risks and opportunities arising for the group from those impacts arising from internal activities, they are also to be reported.

Material impacts, risks and opportunities of joint ventures that result in accounting recognition of assets and liabilities are included. Joint ventures and associates that are recognised in the consolidated financial statements as a single asset are also a source of material impacts, risks and opportunities to be reported, as connected with the undertaking through its business relationships. When, in addition to the investment relationship, joint ventures and associates are also actors in the value chain (e.g. suppliers or customers), they are treated as any other counterpart in the value chain (ESRS 1 paragraph 67).

2) *When does financial control apply, when does operational control apply?*

The sustainability statement shall be for the same reporting undertaking as the financial statements based on financial control as defined in the respective financial accounting guidance (IFRS or national GAAP as the case might be).

When the reporting undertaking does not have operational control on a subsidiary, a site or an asset included in the consolidated financial statements, the material impacts, risks and opportunities of that subsidiary, site or asset are nevertheless included in the sustainability statement.

Reference is made to ID 148 *Scope of consolidation for non-EU and unconsolidated subsidiaries* for the treatment of subsidiaries that are excluded from the consolidation perimeters due to their immateriality.

For environmental matters, ESRS refer to the concept of operational control to identify situations where metrics about IROs of a site, an asset, or an entity under operational control but outside the financial control perimeter have to be reported. This is only applicable for:

1) ESRS E1 Disclosure Requirement E1-6 - *Gross Scopes 1, 2, 3 and Total GHG emissions*;
2) ESRS E2 Disclosure Requirement E2-4 – *Pollution of air, water and soil*; and
3) ESRS E4 Disclosure Requirement SBM 3 – *Material impacts, risks and opportunities and their interaction with strategy and business model*.

Reference is made to further guidance on operational control in the Value Chain Implementation Guidance chapter 2.3 *From value chain to own operations – Operational control*.

Reference is made to FAQ 2: *What is meant by the undertaking being "connected" with an impact?* of the Implementation Guidance 1: *Materiality assessment* explaining that impact materiality covers impacts connected with the undertaking's own operations and value chain, including through its products and services, as well as through its business relationships.

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.

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-3, GOV-5, SBM-1 to SBM-3, IRO-1, and the Minimum Disclosure Requirements on policies and actions respectively on metrics and targets.

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.

The entity-specific sustainability matter shall also be disclosed by considering the ESRS 2 Minimum Disclosure Requirements on policies and actions (ESRS 2 paragraph 60) and for metrics and targets (ESRS 2 paragraph 70).

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.

hat gelöscht: :

Answer

The undertaking is active in fossil fuel sector if it derives any revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage, and trade, of fossil fuels. Fossil fuels are understood as non-renewable carbon-based energy sources such as solid fuels, natural gas and oil.

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.

Supporting material

Commission Delegated Regulation (EU) 2022/1288 defining '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)

Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action defining 'fossil fuel' means non-renewable carbon-based energy sources such as solid fuels, natural gas and oil.

ID 728 - Representation of employees and other workers

Category

Governance

Question asked

Is the "representation of employees and other workers" in ESRS 2 paragraph 21(b) asking which of the board members is also an employee or is it about if there are workers representants in the board?

ESRS Reference

ESRS 2 paragraph 21 (b)

Key terms

Representation of employees and other workers

Background

ESRS 2 paragraph 21(b) states: 'The undertaking shall disclose the following information about the composition and diversity of the members of the undertaking's administrative, management and supervisory bodies: … (b) representation of employees and other workers … '.

GRI is also a useful source of complementary guidance since it also requires describing the composition of the highest governance body and its committees. However, DR GOV-1 21(b) requires reporting representation of employees and other workers, whereas GRI 2-9-c-viii requires reporting stakeholder representation, which includes but is not limited to employees and other workers.

Answer

The undertaking shall disclose whether there are employees' and other workers' representatives in their administrative, management, and supervisory bodies. This is because ESRS 2 paragraph 21(b) requires information on the 'representation of employees and other workers'. The representation can be directly by an employee of the undertaking or indirectly selected by the appropriate body of the undertaking.

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

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

Governance

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.

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*

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.’

Answer

In assessing the materiality of a given sustainability matter, a risk and an opportunity that arise from the same matter may be considered individually or together.

Individually a risk or an opportunity, when they are material, trigger the materiality of a matter.

There are cases where an opportunity is the result of an action undertaken as a result of an identified financial risk. In these cases, the risk and the opportunity are jointly considered when assessing the materiality of the relevant matter.

Accordingly, there is generally no need to consider what weigh stronger, the sustainability-related risk or opportunity.

Question to SR TEG

A sustainability matter is material when it 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 (ESRS 1 para. 49). Assume that you have a risk and an opportunity arising from the same matter, with the same time horizon, with offsetting effects in terms of expected financial performance. Would you agree that the materiality is assessed without the netting effect? Assume that you have a risk and an opportunity arising from the same matter, but with a different time horizon. In this case there would be an offsetting in terms of cumulative effect at the end of a certain period, but no offsetting in another period. Would you agree that the materiality is assessed without the netting effect? Should these considerations be integrated in the answer? Would you have concrete examples to suggest?

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 paragraph 38, 40 and AR36(c); ESRS 2 paragraph 40(b), 40(c) and AR13

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 from

fossil 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 paragraph 66, ESRS E1 paragraph 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 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 3-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 (medium, small, and long). 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 increases – 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 (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). 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 (AR 70(a) and 73(a)). A breakdown by time horizon is not required but can be reported.

When reporting this information preparers can consider the proportionality principle. While information on climate-related risks over the long-term is useful for giving direction, it is also more uncertain. It is 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.