EUROSIF RESPONSE TO EFRAG PUBLIC CONSULTATION ON THE DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

CLIMATE CHANGE (ESRS E1)

Eurosif and its members are highly supportive of the mission given by the European Commission to the European Financial Reporting Advisory Group (EFRAG) to develop the European Sustainability Reporting Standards (ESRS). As a representative of sustainable investors, Eurosif can attest to the urgent need for comprehensive, accurate and publicly available sustainability-related data on the Environmental, Social & Governance (ESG) performance of companies in scope of the Corporate Sustainability Reporting Directive (CSRD).

Accordingly, we congratulate EFRAG for elaborating an ambitious and comprehensive reporting framework based on double materiality and encompassing the whole spectrum of Environmental, Social and Governance (ESG topics). The ESRS represent an important tool in the EU sustainable finance regulatory framework, as it is expected to promote significant improvements in reporting practices, thus providing investors with meaningful data for their analysis and investment decisions, and needed to comply with their regulatory requirements.

We welcome the opportunity to comment on the relevance and usability of the topical standard on Climate Change (ESRS E1) from the perspective of financial institutions as users of ESG data. The ESRS E1 is well positioned to drive significant improvements in reporting practices and to provide investors with meaningful data for their analysis and investment decisions.

GENERAL OBSERVATION

For the sake of clarity and usability of the standard, the structures of the Disclosure Requirements and the Application Guidance sections could be amended as follows:

- all the information to be disclosed, even the more granular disclosures that are often detailed in the Application Guidance, should be clearly stated and listed in the Disclosure Requirements section;
- all the guidance concerning assessments, the calculation rules and the instructions on connectivity with financial reporting should be contained in the Application Guidance section.

In this way, the "requirements to disclose", and the "requirement to consider/calculate" elements are clearly distinguished.

LIST OF THE DISCLOSURE REQUIREMENTS COMMENTED

ADEQUACY OF DISCLOSURE REQUIREMENTS
- ENVIRONMENTAL STANDARDS – CLIMATE CHANGE ESRS E1 -

DR E1-1 – TRANSITION PLAN FOR CLIMATE CHANGE MITIGATION

The undertaking shall disclose its plans to ensure that its business model and strategy are compatible with the transition to a climate-neutral economy and with limiting global warming to 1.5 °C in line with the Paris Agreement.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the transition plan of the undertaking and its compatibility with limiting global warming to 1.5°C.

Question answered – Question 23
Please, rate to what extent do you think DR E1-1 – Transition plan for climate change mitigation

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☒	☐	☐	☐
C. Can be verified / assured	☐	☐	☒	☐	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☒	☐	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☐	☒	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐

I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☐	☒	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to

We are very supportive of the introduction of a specific disclosure requirement concerning transition plans for climate change mitigation. We agree with the elements that companies are requested to report, as they will provide investors with relevant data to assess and evaluate their ambition and credibility.

In particular, we welcome the explicit and clear reference to the objectives of transitioning to a climate neutral economy, limiting global warming to 1.5°C, and aligning with the Paris Agreement [Paragraphs 13-14], as they set a common goal for companies and investors. We consider that the GHG emissions reduction targets, the mitigation actions & investments planned, the reference to the EU Taxonomy, and details on the implementation progress made are all meaningful elements to exhaustively describe and understand a transition plan [Paragraph 15 (a)(b)(c)(e)]. Furthermore, we welcome the clarification that companies without a transition plan are requested to explain the rationale underpinning this choice [AG 2].

We propose the following suggestions to further improve the relevance and the accessibility of data.

- **Streamline the presentation of information**

As observed in the Basis for conclusions [BC 37], the transition plan includes items that are described in more details under other disclosure requirements of ESRS E1. In particular, these elements are: **GHG emissions reduction targets, key actions taken and planned, financial resources supporting** the implementation of the transition plan, **role of the Taxonomy-aligned activities** towards implementing the plan.
As these elements are already detailed under multiple disclosure requirements and application guidance, companies might **split information on the same elements and spread them across different parts of the report**, thus reducing its overall cohesion. **Fragmentation might confuse users and undermine their ability to easily find the key information they need**.
Therefore, we suggest **streamlining the structure** of this disclosure requirement, by specifying in the disclosure requirement/Application Guidance that information on targets, actions planned, resources & role of Taxonomy-alignment should be provided by simply reporting key data & metrics and then cross-referencing the respective disclosure requirements for more detailed explanations, without any repetition. This clarification would ensure that users can **easily identify and focus on the key elements** of the transition plan, while at the same time receiving

adequate **instructions on how to expand on them** – if they need narrative explanations and context.
In general, we see merit in turning this part of the reporting requirement into a **summary table with** references to other parts of the report, where investors can gather further details. Vice-versa, when users access detailed information on targets, action plans, resources, and Taxonomy-alignment they can consult this summary table to understand how these elements are embedded in- and contribute to- the transition plan.

- **Specify Key Performance Indicators for measuring progress, milestones & assumptions**

We recommend including a disclosure requirement on **milestones and interim targets** of the transition plan, which can be aligned and coherent with those set for GHG emissions reduction targets and disclosed under Paragraph 24(e). This piece of information is very relevant for assessing the robustness and feasibility of a transition plan, as companies might claim alignment with an ambitious target, but defer all the substantive actions in the latest part of the timeframe, thus often relying heavily on technologies that are not fully operational or scaleable yet.
Regarding the requirement to explain the **progress made in implementing the transition plan** [Paragraph 15(g)], the standard should request companies to disclose also the Key Performance Indicators (KPIs) adopted to measure the progress, and specify whether the progress is aligned with what was initially planned.
Another element that should be included in the transition plan, by cross-referencing the disclosure requirement on targets [E1-3 (f)], is represented by the **assumptions** adopted to set the target and relative transition pathway, including the **climate and policy scenario** and its key elements.

- **More detailed definition and guidance on "locked-in emissions", in sector-specific standards**

Preparers and users would benefit from a **more precise definition** of "locked-in emissions", as well as a **more detailed guidance** on how to measure and report them. Elaborating a solid definition and guidance requires time and due process that might not be compatible with the task of EFRAG at this juncture. A possible interim solution could consist in **allowing companies to report qualitative information, if they are not able to deliver meaningful data**. Forcing companies to report data based on unclear definitions, undefined conditions, and unreliable tools can undermine the evolution of practices, and obstruct the opportunity to conduct accurate analyses over time. Indeed, reporting entities and analysts will be interested in comparing data year on year, and this exercise might be derailed or rendered impossible if data are completely unreliable at the very beginning of the exercise. **A phase-in for quantitative information can be stipulated, in parallel with the development of more precise definition and guidance.**
EFRAG might also consider to **move the requirements on quantitative data for locked-in emissions in the sector-specific standards**, as this would render it possible to specify definitions and calculation guidance that are more adapt to the peculiarities of the activities of each sector. Moreover, from the point of view of investors, data on locked-in emissions are extremely **relevant**

for companies operating in high-impact sectors, while the figure might be less decision-useful for other sectors – and more challenging to detect for companies.

- **Adopt an objective of limiting the global warming to 1.5° with no or limited overshoot**

We recommend EFRAG to consider narrowing the objective of transition plans for climate change mitigation to **"limiting global warming to 1.5° with no or limited overshoot"**.
According to the latest findings of the IPCC [link], indeed, if global warming temporarily exceeds 1.5°C, many human and natural systems will face additional severe risks and some impacts might be irreversible. Avoiding overshoot is also important to avoid the excessive reliance on carbon capture technologies.
The provision to explain the alignment of plans with a 1.5°C scenario with no or limited overshoot is mandated by the CSRD [Recital 26 in the text of the final agreement - link], and in the delegated regulation detailing the **minimum standards for Climate Transition and Paris-aligned Benchmarks** (Delegated Regulation (EU 2020/1818) supplementing Regulation (EU) 2016/1011). Furthermore, the recommendation for companies and financial institutions to consider climate scenarios and transition pathways that do not admit overshoot (or admit it for short periods and tight divergence) is present in other well established international standards and frameworks. For instance, the latest version of the **SBTi standard for corporates** [link], and the latest version of the **Target Setting** Protocol of the UN-convened Net-Zero Asset Owner Alliance [link].
Moreover, companies should adopt the same scenario for identifying transition risks, for assessing the resilience of their strategy and business model, and for setting the targets they want to achieve through their transition plan. Indeed, they need to have in mind a single picture of the climate and economic future to which they are transitioning. In this regard, we note that the application guidance relative to the disclosure requirement on the materiality assessment of climate-related transition risks and opportunities [AG 14(c)(i)] demands companies to consider at least "a climate scenario in line with limiting global warming to 1.5°C with no or limited overshoot, which might affect its assets and business activities". Hence, we suggest EFRAG to **harmonise the provisions on the use of scenario for transition plans, targets [E1 Paragraph 24 (e)(f)], and the materiality assessment, and to converge towards a 1.5° with no or limited overshoot.**
As in many high-impact sectors it would be impossible to avoid overshooting, the standard might require companies to explain the duration and the magnitude of the overshoot and describe their plans to withdraw from there. This information can be relevant to develop parameters, metrics and guidance for quantifying the expression "limited overshoot".

DR E1-2 – POLICIES IMPLEMENTED TO MANAGE CLIMATE CHANGE MITIGATION AND ADAPTATION

The undertaking shall disclose its policies related to climate change mitigation and its policies related to climate change adaptation.

The principle to be followed under this Disclosure Requirement is to provide an understanding of how the undertaking monitors and manages its GHG emissions, climate-related physical and transition risks and opportunities throughout the value chain.

Question answered: Question 24
Please, rate to what extent do you think DR E1-2 – Policies implemented to manage climate change mitigation and adaptation

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☒	☐	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☒	☐	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☐	☒	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☐	☒	☒

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to.

It would be relevant for investors to understand the **timeframe** during which the company's climate-related policies are meant to produce their actions and achieve their objectives. Indeed, reducing GHG emissions, mitigating physical and transition risks, and exploiting climate-related opportunities are bound to specific timeframes set by scientific evidence, international agreements, and national policies and regulations. Clarifications on timeframes can be relevant to evaluate the credibility and the robustness of the policies.

Paragraph 19 is focused on the legal requirements and stakeholder expectations which companies must comply with. It might also include an explicit requirement to explain how policies are consistent with relevant **EU policy objectives on climate** (e.g. EU Green Deal objectives).

DR E1-3 – MEASURABLE TARGETS FOR CLIMATE CHANGE MITIGATION AND ADAPTATION

The undertaking shall disclose the climate-related targets it has adopted.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the targets the undertaking has adopted to support its climate change mitigation and adaptation policies and address its material climate-related impacts, risks and opportunities.

Question answered: Question 25
Please, rate to what extent do you think DR E1-3 – Measurable targets for climate change mitigation and adaptation

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☒	☐	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☒	☐	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☐	☒	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☐	☒	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to.

We are supportive of the introduction of specific and detailed disclosure requirements on GHG emissions reduction targets, with a separate provision dedicated to net-zero targets – which are also defined in Appendix A - Defined terms, accordingly with the SBTi Corporate Net-Zero Standards 2021.

We generally support the elements that companies are requested to report, as they will provide investors with meaningful data to assess and evaluate their ambition to abate GHG emissions, as well as the robustness of their plans to transition towards a climate neutral economy. In particular, we appreciate the detailed disclosure requirements on: scope; baseline value and base year; timeframe to achieve the targets, relative milestones and interim targets; assumptions to define the targets, including scenario analysis and reference to a cross-sector or sector-specific emissions pathway; measures to monitor and review progress [Paragraph 24(a)-(h)]. **We support the requirement to exclude removals, credits and avoided emissions from the presentation of the target** [Paragraph 24(c)].

Furthermore, we **applaud the attempt to introduce some elements aimed at improving harmonisation among practices**, such as the requirement, from 2025 onwards, to update the base year for the GHG emission reduction targets in five-year rolling periods [Paragraph 24(d)], and to disclose emissions targets in five-year rolling periods, with target values at least for 2030 and 2050, if available [Paragraph 24(e)].

These provisions set the right direction to decisively foster the transparency and the quality of information on the targets set by companies, and improve the capacity of investors to assess (and to compare – to the extent that is possible) these targets. This is crucial, in turn, to allow financial institutions to set their own GHG emissions reduction and net-zero targets at portfolio level.

While the framework proposed is very complete and robust, we elaborated some comments to further increase the relevance and clarity of information, as well as to simplify the presentation of information.

- **Eliminate the provision on "neutrality claims that involve the use of carbon credits"**

We welcome the provision stated in Paragraph 24(c), clarifying that companies cannot include removals, credits, and avoided emissions as means to achieve the GHG emissions reduction targets. This provision will ensure that investors access accurate information on the efforts undertaken and planned by companies to abate the GHG emissions in their own operations and value chain.

The provision about net-zero targets (Paragraph 25) – according to which companies can explain how they plan to use removals to neutralise residual emissions – is coherent with the requirement for GHG emissions reduction target, and it is aligned with the framework of the Science-based Targets Initiative (SBTi).

Any activity related to removals, carbon credits, and avoided emissions can be reported in separate sections, among the performance measurements (E1-12; E1-13; E1-14) – which is also welcome for the sake of transparency, as it allows data analysts and investors to evaluate whether these measures are credible and scientifically-sound according to their own criteria.

However, we harbour concerns over the inclusion of a provision on "**GHG neutrality claims that involve the use of carbon credits**" (Paragraph 26), according to which a company must prove the credibility and integrity of these credits, and explain how buying credits does not "lower the ambition of its GHG emissions reduction targets".

The concept of "GHG neutrality", as well as the difference between "target" and "claim" are not adequately detailed in the Application Guidance or in the Appendix A - Defined terms. The definition of "Recognised quality standards for carbon credits" in the Appendix A – Defined terms is not sufficient to mitigate the high level of discretion which currently applies in this domain. The vagueness in the formulation of this paragraph might potentially open spaces for over-representations of the companies' commitments to reduce their GHG emissions, and diminish clarity for data users.

Besides the reservations over the terminology, it is challenging to understand how this provision can coexist with those on GHG emissions reduction and net-zero targets, which seems contradicting. For instance, it is unclear as to whether companies must have a GHG emissions reduction target in place and, as a second step, explain how credits would allow them to also be "carbon neutral", in addition to achieving the target. Moreover, there is a high risk that users would struggle to appreciate the difference between "neutrality claim" and "net-zero targets", thus decreasing the possibility to compare between companies.

Notwithstanding that the Basis for Conclusion [BC 51(c)] explains that this paragraph was included and formulated with the objective of reducing greenwashing, we believe **the very opportunity to claim neutrality using credits can generate distortions**. Companies have sufficient opportunities to explain the credibility of their activities relative to carbon credits and their role in the mitigation policy in the respective disclosure requirement, under the Performance Measurement section (E1-13 and AG 65(a)).

Therefore, **we suggest eliminating this paragraph**.

The second part of the paragraph, which requires companies using carbon credits to explain how they ensure that the claim of carbon neutrality "do not impede or lower the ambition of its GHG emissions reduction target" can be kept and, referred also to the use of removals and the role of avoidance, included in different parts of the standard (e.g. in their specific disclosure requirements E1-12, E1-13 and E1-14 in the Application Guidance that require companies to explain the role of credits and removals in the mitigation policy). In this way, companies that also rely on carbon credits, removals and avoidance to achieve their mitigation objective will have the opportunity to explain how these activities do not interfere with their commitment to lower their emissions.

- **Quantitative metrics for measuring progress, and further details on the scenarios used**

We appreciate that the requirement on GHG emissions reduction targets prioritises the absolute value over the intensity value, as the former is necessary to achieve EU and international climate targets. This provision might be further strengthened by clarifying that **when companies decide to disclose an intensity target, they should describe the denominator used, and explain why they chose it** [Paragraph 24(b)].

Moreover, we suggest requiring an explanation of whether the targets are aligned with the objective of limiting global warming to 1.5°C with **no or limited overshoot**, for the same reasons detailed in the response to Question 23 [Paragraph 24(e) and (f)].

Information on the assumptions and methodologies adopted for target-setting is fundamental for data users that want to assess the credibility and the ambition of the target against the EU and international climate goals. As companies can choose various scenarios with very different assumptions, it would be beneficial for the comprehensibility of the information to **recommend companies to report a precise list of details on the scenarios used – if available**. The elements to be disclosed can include: 1) geographic implications; 2) sectoral implications; 3) rates of decarbonisation of the economy in different timeframes (e.g. 2030, 2040 and 2050); 4) energy demand and energy mix in different timeframes; 5) levels of carbon removals and storage in different timeframes; 6) technology developments; 7) policy and regulatory developments; 8) macro-economic implications (e.g. GDP and population growth trends). The purpose of adding these clarifications (as guidance, rather than as requirements) is not to ask companies to produce new data (as these should be attached to the scenarios), but rather to ensure that companies describe the scenarios analysis in a more accurate and standardised way [Paragraph 24(f)], and users can verify the rationale and the robustness of their choices.

Furthermore, while credible scenarios and assumptions should be used by companies, there should also be a recognition that, fundamentally, the scenarios remain hypothetical projections that may be subject to revision as the economy and knowledge evolves.

The draft standard demands companies report on the overall progress towards achieving their targets, but it does not provide any further guidance on **how progress can be measured and disclosed**. We therefore suggest introducing optional quantitative metrics, such as the % of the target value (or the decarbonisation rate) achieved in a % of timeframe. For instance, a company might report that it achieved 20% of its target value in 2 years, which reflects X% of the overall timeframe set to achieve the target. That said, any quantitative data and/or metric should be coupled with narrative explanations to allow companies to convey all the implications and nuances of their specific decarbonisation process [Paragraph 24 (h)].

- **Specify whether net-zero targets are certified**

The disclosure requirement for net-zero targets is complete and concise [Paragraph 25]. Additional information of value to data users is whether the net-zero target had been certified under a specific initiative/organisation, such as the SBTi. In most cases, this information could reduce the need to perform an in-house analysis by data analysts and investors.

- **Streamline the location & presentation of information on targets and action plans**

Explanations about the expected contribution from **decarbonisation levers** and **key actions** to the achievement of GHG emissions reduction targets are now required under two disclosure requirements [E1-3: Paragraph 24(h); AG 30(b)(ii) and AG 31; E1-4: Paragraph 30(a) and AG 33 (b)(c)]. As explained also in our response to Question 23, the same information is further required under E1-1 on Transition plan for climate change mitigation.

To **improve the cohesion and conciseness of the report, ensure connectivity between different parts**, and **avoid overlapping disclosures**, companies might report:

- under this disclosure requirement (E1-3 Measurable targets for climate mitigation and adaptation) all the data necessary to describe the **characteristics and assumptions of the targets**;
- under disclosure requirement E1-4 (Climate change mitigation and adaptation action plans and resources) information on how companies **have planned to achieve the targets**.

Therefore, we suggest **moving the table about decarbonisation levers proposed in AG 30 under the disclosure requirement E1-4 on Climate change mitigation and adaptation action plans and resources**. Companies would be able to disclose in one single location [E1-4], and in a table format, the following information: decarbonisation levers; corresponding actions planned or undertaken, including any program to adopt new technologies; quantitative estimated contribution of each decarbonisation lever and action plan to the achievement of GHG emissions reduction targets. The table may also include data on the expected deployment of resources for each action plan.

DR E1-4 – CLIMATE CHANGE MITIGATION AND ADAPTATION ACTION PLANS AND RESOURCES

The undertaking shall disclose its climate change mitigation and adaption action plans and the resources allocated for their implementation.

The principle to be followed under this Disclosure Requirement is to provide transparency on the key actions taken and planned to achieve climate-related targets and to manage GHG emissions, transition and physical risks and opportunities, supporting the understanding of achieved performance improvements and the credibility of the undertaking's policies, strategy and business model with regards to climate change.

Question answered: Question 26

Please, rate to what extent do you think DR E1-4 – Climate change mitigation and adaptation action plans and resources

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☐	☒	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☐	☒	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☐	☒	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to

We highlight the relevance of the disclosure requirements detailed in the Application Guidance on:

- **negative impacts on the environment and/or on people that may derive from the execution of action plans**, by also referencing disclosures provided under other topical standards [AG 33(e)], as it would provide investors with relevant information to evaluate the commitment of the company to a so-called "Just Transition";
- **considerations about access to finance and cost of capital for investments in R&D** [AG 34], as it would allow companies to clearly explain to investors the challenges and uncertainties that are inextricably related to these types of projects.

On the necessity to avoid overlaps and streamline the presentation of the information, in our response to question Q25 we suggested how the disclosure requirements on action plans (including decarbonisation levers to achieve GHG emissions reduction targets) should be aggregated and disclosed under this disclosure requirement.

- **Reference the Taxonomy Disclosure Requirements to provide details on Taxonomy-aligned CapEx and OpEx**

Regarding the requirement that CapEx, OpEx and CapEx plan should be consistent with the KPIs and the CapEx plan required as per Article 8 of the EU Taxonomy Regulation and the related Delegated Acts [AG 35], we note the the requirement would need further clarification as to what is intended per "consistent" (for instance, it is not clear whether all CapEx and OpEx are expected to be Taxonomy-aligned, and companies should explain the reasons when this is not the case).

Therefore, we suggest amending the formulation of the Application Guidance, and require that **for each action plan and the related information about the resources allocated, the proportion of Taxonomy-aligned CapEx and OpEx should be indicated by referencing the corresponding metric disclosed under the Taxonomy Disclosure Requirements**. For action plans (or portion of action plans) where there is no Taxonomy-alignment, companies should provide explanations (e.g. because the corresponding economic activity has not been assesses in the Taxonomy yet).

DR -E1-5 – ENERGY CONSUMPTION & MIX

The undertaking shall provide information on its energy consumption.

The principle to be followed is to provide an understanding of the undertaking's absolute energy consumption, improvement in energy efficiency and share of renewable energy in its overall energy mix.

Question answered: Question 27
Please, rate to what extent do you think DR E1-5 – Energy consumption & mix.

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☒	☐	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐

E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☐	☒	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☒	☐	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to.

This disclosure requirement is highly relevant for financial market participants (FMPs) selling sustainable products in the EU, as it **constitutes one of the Principal Adverse Impact indicator (PAII) that must be disclosed across all portfolios as per Sustainable Finance Disclosure Regulation** (Regulation (EU) 2019/20188 - SFDR). The provision is aligned with the criteria 5 set forth in Annex 1 - Template principal adverse sustainability impacts statement, Delegated Regulation (EU) 2022/1288 supplementing Regulation (EU) 2019/2088 (henceforth DA 2022/2018 – Annex I) [link].

We welcome the inclusion of calculation rules, clear guidance on units of measurement and conversion factors, and the requirement for companies to disclose the key data in table format, potentially including also information on targets (by cross-referencing details under E1-3 on Measurable targets for climate mitigation and adaptation). These elements can increase the comparability and harmonisation of data.

Regarding part C on the verifiability, we suggest including a **disclosure requirement on the source of data**, thus allowing analysts and investors to verify the reliability of the information.

Regarding part F on the consistency with relevant EU legislations, we suggest EFRAG explicitly clarifies that the definition of "renewable energy sources", including their respective breakdowns, is aligned with that adopted as per SFDR (DA 2022/2018 – Annex I). Now the list of renewable sources listed in the Appendix A - Defined terms coincides with that detailed in DA 2022/1288 - Annex I (6), but this could be clearly stated. Moreover, we suggest including the reference to a legal or scientific definition for the term "non-renewable energy source", as it is not provided even in the text of DA 2022/2018.

DR -E1-6 – ENERGY INTENSITY PER NET TURNOVER

The undertaking shall provide information on the energy consumption associated with activities in high climate impact sectors per net turnover of these activities

Question answered: Question 28
Please, rate to what extent do you think DR E1-6 – Energy intensity per net turnover.

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☒	☐	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☒	☐	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☐	☒	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☒	☐	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to.

This disclosure requirement is highly relevant for FMPs selling sustainable products in the EU, as it constitutes a **PAII** that must be disclosed across all portfolios as per SFDR. The **provision is aligned** with the criteria 6 set forth in Annex 1 - DA 2022/2018 [link].

We welcome the inclusion of a calculation formula, and clear guidance on the categories that should be considered as “high-impact sectors”, as these would add to the comparability of data, and ensure that the terminology is aligned with the DA 2022/2018 – Annex I.

Regarding part C on the verifiability of data, companies should be required to report the **list of the high-impact sectors and relative activities considered** with their energy consumption performance (covered in the numerator for total energy consumption from activities in high-impact sectors), and the **turnover from each activity** (covered in the denominator for net turnover from activities in high-impact sectors). These clarifications would improve transparency and enable data analysts to evaluate the reliability of the information.

Regarding part A on the relevance of the information disclosed, we endorse the observations expressed by EFRAG in the Basis for Conclusion (BC 97-100). In particular, we agree that **investors would find data on energy intensity per unit of production more relevant**, as the metric would be less dependent on the variations of financial metrics. On the other hand, as figures per unit of production would need to be reported per economic activity/sector with different denominators, it would be difficult for FMPs to aggregate these data at a portfolio level for their SFDR obligations. However, we understand that it is not in the remit of EFRAG to question on the formulation of the PAIIs, and the issue should be addressed within different regulatory workstreams. For what concerns the development of robust corporate reporting standards that are useful for investment decisions, we welcome the EFRAG's proposal to **include requirements on energy intensity per unit of production in the sector-specific standards**.

DR -E1-7 – SCOPE 1 GHG EMISSIONS

The undertaking shall disclose its gross Scope 1 GHG emissions in metric tons of CO2 equivalent.

Question answered: Question 29
Please, rate to what extent do you think DR E1-7 – Scope 1 GHG emissions.

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☐	☒	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☒	☐	☐	☐

H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☒	☐	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to.

- **Comments on the disclosure requirements on Scope 1, Scope 2, Scope 3, and total GHG emissions (E1-7, E1-8, E1-9, and E1-10) and the relative Application Guidance**

These disclosure requirements are relevant for the impact materiality assessment as well as for the financial materiality assessment: data on GHG emissions, indeed, provide information on the position of a company vis á vis the objective of reducing its negative effect on climate, and are valuable indicators to assess the exposure to climate-related transition risks. Moreover, data on Scope 1, Scope 2, Scope 3 and total GHG emissions are needed by FMPs selling sustainable products in the EU, as they constitute **PAIIs** that must be disclosed across all portfolios as per SFDR. The **provisions are aligned** with the criterion 1 set forth in Annex 1 - DA 2022/2018.

We welcome the provisions aimed at ensuring data verifiability and comparability, such as the inclusion of calculation rules, and the requirement for companies to disclose the emissions factors and the methodologies used to calculate GHG emissions [AG 43 (e)]. The clarification that purchased, sold or transferred carbon credits or GHG allowances cannot be counted [AG 45(d), AG 47(h), and AG 48(l)] is useful to provide investors with a clear representation of the amount of GHG emissions that need to be reduced within a company's own operations and value chain.

Regarding part G on the alignment with sustainability reporting standards, we note that the draft IFRS 2 demands companies to disclose Scope 1 and Scope 2 GHG emissions separately for: 1) the consolidated accounting group (the parent and its subsidiaries); 2) associates, joint ventures, unconsolidated subsidiaries or affiliates which are not included in the previous category. Additionally, companies are required to explain the approach that they have adopted to include emissions for category 2 (e.g. equity share or operational control). This approach is consistent with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard [link], which companies are required to follow as per ESRS E AG 43(a). Moreover, since each company chooses the organisational boundary that is best suited for its circumstances, it is useful for investors to identify which parts of Scope 1 and Scope 2 emissions are related to the consolidated accounting group, and which are related to other entities.

Hence, **we suggest that EFRAG considers integrating this provision of the IFRS 2 in the Application Guidance for Scope 1 and Scope 2**: this will allow preparers to use the same data to satisfy both ESRS E1 and IFRS 2, and avoid potential discrepancies for investors.

More generally, we suggest **including a requirement to explicitly disclose the organisational and operational boundaries** that have been determined to calculate Scope 1, Scope 2 and Scope 3 GHG emissions, as required in the Greehouse Gas Protocol Corporate Accounting and Reporting Standard (Chapter 9). The provision to apply the reporting boundaries as defined in the cross-cutting standard ESRS 1 might not be immediately understandable in this part of the report.

- **Specific comments on the disclosure requirement for Scope 1 GHG emissions (E1-7)**

The disclosure of the percentage of Scope 1 GHG emissions under regulated emissions trading scheme is a relevant piece of information for investors, as it can be a meaningful indicator for current and potential climate-related transition risks (e.g. increased pricing of GHG emissions).

To enable data users to evaluate the reliability of the data reported, companies should also disclose **a list of the ETS installations that have been considered** to calculate the aggregate data according to the formula in AG 46, with corresponding amount of the CO_2 covered by each one.

DR -E1-8 – SCOPE 2 GHG EMISSIONS

The undertaking shall disclose its gross indirect energy Scope 2 GHG emissions in metric tons of CO2 equivalent.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the indirect impacts on climate change caused by the undertaking's consumed energy whether externally purchased or acquired.

Question answered: Question 30
Please, rate to what extent do you think DR E1-8 – Scope 2 GHG emissions.

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☐	☒	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☐	☒	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☒	☐	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to.

Having separate data for location-based and market-based Scope 2 GHG emissions is useful for investors, as they can understand the amount of purchased emissions based on the power grid of the location where the energy is consumed, and the amount of purchased emissions based on the type of suppliers and/or contractual instruments chosen.

See further comments provided in the response to question Q29.

DR -E1-9 – Scope 3 GHG emissions

The undertaking shall disclose its gross indirect Scope 3 GHG emissions in metric tons of CO2 equivalent.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the GHG emissions that occur in the undertaking's value chain beyond its Scope 1 and 2 GHG emissions. For many undertakings Scope 3 GHG emissions are the main component of the GHG inventory and an important driver of their transition risks.

Question answered: Question 31
Please, rate to what extent do you think DR E1-9 – Scope 3 GHG emissions

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☐	☒	☐	☐

D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☐	☒	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☒	☐	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to.

We support the requirements to report: the list of Scope 3 GHG emissions categories selected and non-selected for accounting, with justifications for the exclusions; the boundaries considered, the estimating methodologies and the calculation tools adopted for each selected category; and clarifications on the percentage of emissions calculated using data obtained from constituents of the value chain. These data will allow analysts and investors to check the reliability of the data reported.

The **requirement regarding financial institutions** [AG 48(b)] would be better placed under the **sector-specific standards**.

See further comments provided in the response to question Q29.

DR -E1-10 – TOTAL GHG EMISSIONS

The undertaking shall disclose its total GHG emissions in metric tons of CO_2 equivalent.

The principle to be followed under this Disclosure Requirement is to provide an overall understanding of the undertaking's GHG emissions and whether they occur from its own operations or the value chain. The disclosure is a prerequisite for measuring progress towards reducing GHG emissions in accordance with the undertaking's climate-related targets and EU policy goals as well as for the assessment of the undertaking's transition risks.

Question answered: Question 32
Please, rate to what extent do you think DR E1-10 – Total GHG emissions

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☐	☒	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☐	☒	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☒	☐	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to.

We welcome the requirement to summarise in a table format [AG 50] the key data on: Scope 1, Scope 2, and Scope 3, and total GHG emissions, including the breakdowns required under the disclosure requirements for individual Scopes, and comparative sections for backward-looking information (i.e. comparison with data reported in the previous accounting year) and forward-looking information (i.e. comparison with GHG emissions reduction targets for 2025, 2030 and 2050, if available). The format table is well-suited to render data more accessible to users, and provides a good overview on the progress made, and the objectives to be achieved.

Regarding the breakdown of Scope 3 GHG emissions, we would be **cautious about introducing "significant overarching Scope 3 categories"** [AG 51], as it could generate confusion. Reporting Scope 3 emissions per significant categories, as recommended in the GHG Protocol, seems the clearest solution.

The **breakdowns per country and per operating segments** are requested at aggregated level [AG 52 and AG 53, respectively] and only optionally at Scope level [AG 44]. However, information about the GHG emitted in each significant location and operation are more meaningful if disclosed per each Scope. These data would need to be collected anyway, if companies were requested to report these breakdowns for total GHG emissions. Hence, we suggest amending AGs 52 and 53, and require companies to report **Scope 1, Scope 2 and Scope 3 emissions broken down by country and operating segment**. Given the granularity of this requirement, we suggest establishing it as **optional**, and set a **phase-in** to make it binding.

See further comments provided in the response to question Q29.

DR -E1-11 – GHG INTENSITY PER NET TURNOVER

The undertaking shall disclose its total GHG emissions per net turnover

Question answered: Question 33
Please, rate to what extent do you think DR E1-11 – GHG intensity per net turnover

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☐	☒	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☒	☐	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☒	☐	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to

This disclosure requirement is relevant for the impact materiality as well as for the financial materiality assessment: data on GHG intensity, indeed, provide information on the position of a company vis á vis the objective of reducing its negative effect on climate, and are valuable indicators to assess the exposure to climate-related transition risks. Moreover, data on GHG intensity is needed by FMPs selling sustainable products in the EU, as it constitutes a **PAII** that must be disclosed across all portfolios as per SFDR. The **provision is aligned** with the criterion 3 set forth in Annex 1 - DA 2022/2018. As the calculation formula detailed in the Annex I - DA 2022/2018 (3) mentions the term "revenue" in the denominator, ESRS E1 could align, instead of using the term "net turnover" [AG 55(a)].

Regarding part G, the **alignment with international standards**, and in particular with IFRS 2, would increase if companies were requested to report **GHG emissions intensity per physical output** (unit of production), in addition to economic output. Moreover, the information on GHG intensity would be more meaningful and complete if provided also per unit of production, as the latter metric is not exposed to economic and financial volatility (e.g. losses of turnover due to external economic factors). This disclosure requirement could be considered in the **sector-specific standards**.

DR -E1-12 – GHG REMOVALS IN OWN OPERATIONS AND THE VALUE CHAIN

The undertaking shall disclose GHG removals from own operations and the upstream and downstream value chain in metric tons of CO_2 equivalent.

The principle to be followed under this Disclosure Requirement is to provide in a comparable manner transparency on actions to permanently remove or actively support the removal of GHG from the atmosphere.

Question answered: Question 34
Please, rate to what extent do you think DR E1-12 – GHG removals in own operations and the value chain

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☐	☒	☐
C. Can be verified / assured	☐	☐	☐	☒	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐

F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☐	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☒	☐	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☒	☐	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to

While calculation tools and reporting methods for this topic are still not mature and well-established, we appreciate the approach adopted by EFRAG, whereby reporting entities are required to disclose: the full list of removal activities, relative descriptions and GHGs concerned [Paragraph 55 (a)(b)]; as well as the assumptions, methodologies, and frameworks applied for calculating the amount of GHG emissions removed [Paragraph 55 (c) and AG 60 (g)]. We also appreciate the requirement to separate data for the removals occurred within the operations owned by the company, and those that have occurred across the value chain (AG 61). The table format would ease access to this information for data users [AG 62].

Regarding part G, the reason why we noted a limited alignment with international standards – namely IFRS 2 and GRI – is due to the fact that:

- GRI considers removals as an emissions reduction method [305-5 Reduction of GHG emissions];
- IFRS 2 is currently proposing to account removals for the determination of GHG emissions reduction targets (with transparency requirements attached, though) [Paragraph 13(b)(ii)].

However, we believe that EFRAG has a more robust approach and should preserve it. Furthermore, we encourage EFRAG to work with the two international standard setters during the ongoing collaboration exchanges, and build consensus for its approach. The same considerations apply to carbon credits, therefore are valid as response to Q35.

This disclosure requirement could be **considered for the sector-specific standards**, as biogenic and removals & storage are more frequently used, and more important for the transition, in some specific sector.

DR -E1-13 – GHG MITIGATION PROJECTS FINANCED THROUGH CARBON CREDITS

The undertaking shall disclose the amount of GHG emission reductions or removals from climate change mitigation projects outside its value chain it has financed through the purchase of carbon credits.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the extent and quality of carbon credits the undertaking has purchased from the voluntary market and cancelled in the reporting period.

Question answered: Question 35
Please, rate to what extent do you think DR E1-13 – GHG mitigation projects financed through carbon credits

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☐	☒	☐
C. Can be verified / assured	☐	☐	☐	☒	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☒	☐	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☒	☐	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to.

While we acknowledge that calculation tools and reporting methods for this topic are still not mature, generally agreed and well-established, we appreciate the approach adopted by EFRAG, whereby reporting entities are required to disclose: the amount of carbon credits that are verified against recognised quality standards [Paragraph 58], and calculation rules are proposed [AG 65]. The table format is also a useful tool for enhanced clarity [AG 66].

Additionally, we would suggest requiring the reporting of a **list of the reduction and removal projects** financed through credits, with a concise **description for each one** (e.g. where they occur, technology or assumption on which they are based, etc.): these pieces of information would increase the verifiability of the data.

On part G, see comments provided in our response to question Q 34.

Our remarks on the opportunity of considering carbon credits for “climate neutrality claims” are provided in the response to question Q 25.

DR -E1-14 – AVOIDED GHG EMISSIONS FROM PRODUCTS AND SERVICES (OPTIONAL)

The undertaking may disclose its estimated total avoided GHG emissions from its products and services in metric tons of CO2 equivalent.

The principle to be followed under this optional Disclosure Requirement is to provide transparency on the methodologies used and assumptions made by the undertaking when estimating and communicating about the impacts of their products and services on climate change in comparison to other products and services, or in comparison to a situation where their products and services would not exist, considering that there is currently no generally accepted framework for accounting and reporting on such avoided emissions.

Question answered: Question 36
Please, rate to what extent do you think DR E1-14 – Avoided GHG emissions from products and services

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☒	☐	☐	☐
C. Can be verified / assured	☐	☐	☐	☒	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐

G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☒	☐	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☒	☐	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to

Information on avoided emissions from products and services can be very **useful for investors willing to finance "climate solutions"**, i.e. companies, projects, and operations that contribute to achieve climate objectives and/or provide solutions enabling other companies or sectors to transition towards or to adapt to a climate neutral economy. Many companies with these characteristics need investments for R&D projects, or to scale up the production of successful technologies, or to expand the distribution of certain services. This standard therefore represents a significant opportunity to foster knowledge, information-sharing and transparency in this field, benefitting companies, investors, and the overall economy. This is why we do not think that this disclosure requirement should be eliminated due to methodological challenges. On the contrary, **encouraging companies to disclose through an optional requirement, and users to analyse data will improve practices**. In the end, analysts and investors will come up with their own judgements on the reliability of the data disclosed.

Considering the specificities of products and services, EFRAG might instead consider **placing this reporting requirement in some sector-specific standards**, where the probability and frequency at which companies develop climate solution might be higher. Sector-specific standard would also prove a better place to develop more appropriate calculation methodologies and reporting requirements.

Considering that calculation tools and reporting methods are still not mature, widely agreed, and well-established, we appreciate the approach adopted by EFRAG, whereby reporting entities are required to **provide transparency on the assumptions made and the methodologies used to estimate and report** the positive impacts on climate of their products and services, as compared to other products or services, or situations where the considered products or services would not exist [Paragraph 60]. We welcome the disclosure requirements on details about data sources [Paragraph 61 (b)] and trade-offs with other environmental impacts [Paragraph 61 (c)]; the attempt of providing calculation rules [AG 68], and the table format [AG 69]. Furthermore, we acknowledge the **importance of getting companies to provide clarity on the uncertainty of the results** [AG 68(c)(vi)], and on the additionality of the products of the services considered [AG 68(c)(vii)].

The reason for our rate to **part G** is due to the fact that the GRI requires information about the reduction in energy consumption of sold products. IFRS2 accounts avoided emissions as offsets that can be taken into consideration as means to achieve GHG emissions reduction targets.

DR -E1-15 – POTENTIAL FINANCIAL EFFECTS FROM MATERIAL PHYSICAL RISKS

The undertaking shall disclose the estimated potential financial effects from its material physical risks.

The principle to be followed under this Disclosure Requirement is to provide an understanding of how material climate-related physical risks may affect the undertaking's performance and position over the short, medium and long term, considering that those potential future financial effects may not meet at the reporting date the recognition and measurement criteria set for assets and liabilities.

Question answered: Question 37
Please, rate to what extent do you think DR E1-15 – Potential financial effects from material physical risks

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☒	☐	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☐	☒	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☐	☒	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to.

Accessing information on the estimated potential financial effects from climate-related physical risks is important for investors, as they need to have a complete understanding of the vulnerability of the investee companies to all the risks that can affect their position and performance over time. The disclosure requirement will **deliver meaningful data for investors' analysis and decision-making**, as well as for the elaboration of ratings, data & research tools that can support these processes.

The requirement to disclose the procedure for assessing the potential financial effects, including the scope of application, time horizon, calculation methodology, critical assumptions, parameters, and limitations of the assessment [AG 71(a)] will enable analysts and investors to **check the reliability of the data**.

We **welcome the clarification that if companies are unable to provide meaningful data, they can report qualitative information** [AG 74]. This approach realistically takes into account the challenges that companies currently face when identifying material risks stemming from climate change and translating them into financial data.

Furthermore, we note that for investors it would be useful to gain insight into the location and purpose of the assets at risk.

Additionally, we suggest that ESRS E1 explicitly **requires companies to disclose the list of assets and business activities considered to calculate the share of assets and turnover at physical risk** [Paragraph 67(a)(b)], with details on the risk factors (risks and exposure) of each one. In the current draft, the list of business activities at risk is only mentioned as an element that companies "may" use to "assess" the metric and compile the information requested in the disclosure requirement [AG 73]. This clarification would enable investors to better understand the data and evaluate their reliability.

Moreover, we observe that disclosing the list of business activities at risk would increase the interoperability with IFRS 2. More precisely, according to the current draft of IFRS 2, companies can opt to report the **amount and percentage of business activities vulnerable to physical risks**. This requirement is further explained in Illustrative Guidance on [Draft] IFRS S2 Climate-related Disclosures. According to the example provided, an entity can disclose amount and percentage of "wastewater treatment capacity located in 100-year flood zones". Considering the same example, ESRS E1 would require the company to report instead the share of turnover from business activities at physical risk, among which it would identify the wastewater treatment capacity located in 100-year flood zone. In this example, users would obtain two different data. Reconciling data of business activities and turnover is possible, but it would expect users to do more passages and calculations.

Additionally, we note that IFRS 2 requires companies to report also on the **expected changes in their financial position and performance over time, given their strategy to address climate-**

related risks (i.e. current and committed investment plans & planned sources of funding to implement the strategy) [Paragraph 14(c)]. In Appendix V – IFRS Sustainability Standards and ESRS reconciliation table (page 65), this metric is indicated as "net risks", as compared to the "gross risks" to which E1-15 (and E1-16 for transition risks) refers (i.e. material risks before mitigation and adaptation policies). Information of net risks are useful for investors, as financial effects might differ if one considers all the material climate-related risks to which a company is exposed, or if the strategic and risk-management decisions are also taken into account. The requirement to disclose the share of assets at physical risk that are addressed by mitigation and adaptation action plans [Paragraph 67(a) and AG 72 (b)] only partially fulfil this information. Hence, to further improve the interoperability between the two standards, EFRAG might consider adding disclosure requirements on **"net climate-related risks"**, broken down by physical and transition risks, and include them in E1-15 and E1-16 respectively. Considering the clarifications provided in the Basis for Conclusion [BC 187] about the lack of agreed quantification methodologies, disclosure requirements on net physical and transition risks might be considered **for future development of the standard**.

Finally, we note the **potential overlap** between the disclosure requirement under AG 71(b) and AG 17(b) of the application guidance on materiality assessment. Both provisions, indeed, demand companies to **disclose how they have defined short-, medium-, and long-term time horizons for assessing climate-related physical risks in own operations and value chain**, and how these definitions are linked to the expected lifetime of the undertaking's assets, strategic planning horizons and capital allocation plans. This overlap can be solved by referencing the information provided under the disclosure requirement on the materiality assessment.

DR -E1-16 – POTENTIAL FINANCIAL EFFECTS FROM MATERIAL TRANSITION RISKS

The undertaking shall disclose the estimated potential financial effects from material transition risks.

The principle to be followed under this Disclosure Requirement is to provide an understanding of how material climate-related transition risks may affect the undertaking's performance and position over the short, medium and long-term, considering that those potential future financial effects may not meet at the reporting date the recognition and measurement criteria set for assets and liabilities.

Question answered: Question 38
Please, rate to what extent do you think DR E1-16 – Potential financial effects from material transition risks

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐

B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☒	☐	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐
G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☐	☒	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☒	☐	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to.

Accessing information on the estimated potential financial effects from climate-related transition risks is important for investors, as they need to have a complete understanding of the vulnerability of the investee companies to all the risks that can affect their position and performance over time. The disclosure requirement will **deliver meaningful data for investors' analysis and decision-making**, as well as for the elaboration of ratings, data & research tools that can support these processes.

As explained in the answer to question Q 37, we **welcome the clarification that if companies are unable to provide meaningful data, they can report qualitative information** [AG 85].

The requirement to disclose the procedure for assessing the potential financial effects, including the scope of application, calculation methodology, critical assumptions, parameters, and limitations of the assessment [AG 80(a)] will allow analysts and investors to **check the reliability of the data**. Verifiability could be further improved by requiring companies to report on the **assumptions and calculation methodologies, including the scenario analysis, adopted to calculate the stranded assets** [AG 81(a)]. These explanations are only partially covered under the information provided on the materiality assessment [AG 18(d)].

We suggest explaining why the time-horizon suggested for defining short-term is 1-5 years, whereas in ESRS 1 the interval is 1 year [Paragraph 83 (a)].

The requirement to estimate the amount of **stranded assets** from the reporting period until 2030 and 2050 might be very relevant and decision-useful for investors in some specific sectors – such as those that are classified as "high impact" – but less relevant and much more difficult to identify in some other sectors. Hence, and considering also that measurement and reporting practices are still early-stage on this topic, EFRAG might consider a phase-in and moving the requirement to estimate stranded assets **in the sector-specific standards**. More detailed definition and guidance should also be provided in the future.

Regarding the interoperability with IFSR 2, and in particular with the requirement to disclose the amount and percentage of assets and business activities vulnerable to transition risks [Paragraph 21(b)], we make the same recommendation included in the answer to question Q37, to **explicitly require the disclosure of the list of assets, liabilities, and business activities** considered to calculate the amount and share of assets, liabilities and turnover at transition risk with details on the risk factors (risks and exposure) of each one.

DR -E1-17 – POTENTIAL FINANCIAL EFFECTS FROM CLIMATE-RELATED OPPORTUNITIES

The undertaking shall disclose its potential financial effects from climate-related opportunities.

The principle to be followed under this optional Disclosure Requirement is to allow users to understand how the undertaking may financially benefit from material climate-related opportunities. The disclosure is complementary to information requested under the Taxonomy Regulation.

Question answered: Question 39
Please, rate to what extent do you think DR E1-17 – Potential financial effects from climate-related opportunities

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered	☐	☐	☐	☒	☐	☐
B. Requires information that is relevant for all sectors (sector-agnostic only information)	☐	☐	☐	☒	☐	☐
C. Can be verified / assured	☐	☐	☐	☒	☐	☐
D. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☐	☒	☐	☐
E. Reaches a reasonable cost / benefit balance	☐	☐	☐	☒	☒	☐
F. Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐	☐

G. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☐	☒	☐	☐
H. Represent information that must be prioritised in first year of implementation	☐	☐	☐	☒	☐	☐
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities	☐	☐	☐	☐	☒	☐

Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to.

Information on the potential financial effects from material climate-related opportunities are **relevant** for investors' analysis and decision-making.

The requirement to report how cost savings and market size from low-carbon products and services are assessed and calculated (including time horizon, methodology adopted, scope of the assessment, critical assumptions and limitations, and scenario analysis [AG 91 and 92]) is relevant to allow analysts to evaluate **how the figures are derived**.

Regarding the assessment of the potential market size for low-carbon products, services, and adaptation solutions, investors would find more relevant to understand **whether companies are ready, or preparing to take advantage of these market opportunities**. Therefore, companies should be required to report on the current turnover from products and services aligned with a climate neutral economy, and/or on the CapEx and the investments plans that the company is committed to deploy to position itself in these markets. For instance (as partially mentioned in AG 92) **links between Taxonomy-aligned turnover & CapEx and climate-related financial opportunities** can be identified and explained under this disclosure requirement.