

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

ESRS E1

Climate change

Basis for conclusions



This Basis for conclusions (March 2023) relate to the draft ESRS issued in November 2022.

DISCLAIMER

This Basis for conclusions accompanies, but is not part of, [draft] ESRS E1 *Climate change*. It summarises the considerations of the EFRAG SRB and the references to other standard setting initiatives or regulations used in developing the proposed contents of the [draft] Standard.

It does not reflect the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA).

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Objective

- BC1. The objective of this [Draft] Standard is to set disclosure requirements that cover the information required by undertakings across all sectors in order to report under a double materiality perspective. It covers in particular:
- (a) the impacts (how the entity impacts climate change);
 - (b) the actions and their results;
 - (c) the material risks and opportunities arising from the undertaking's impacts and dependencies. Such risks and opportunities are sources of financial effects; and
 - (d) the effects of risks and opportunities on the undertaking's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value (financial effects).

Context and reference table

- BC2. The following steps have been followed in developing the contents of the [Draft] ESRS E1:
- (a) considered the requirements of the final CSRD;
 - (b) considered reporting practice under the existing NFRD from relevant studies, such as the European Reporting Lab of EFRAG report "How to improve climate-related reporting" issued in February 2020;
 - (c) considered the directions of the NFRD's 2017 and 2019 non-binding guidelines;
 - (d) in accordance with the CSRD, considered the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks. These include, among others, the Global Reporting Initiative (GRI) Standards, the Sustainability Accounting Standards Board (SASB) standards, the International Integrated Reporting Council (IIRC) framework, the Task-Force on Climate-related Financial Disclosures (TCFD) recommendations, the Carbon Disclosure Standards Board (CDSB) framework, CDP questionnaire, the Greenhouse Gas (GHG) protocol and ISO 14064-1. Guidance from and coherence with these existing standards and frameworks has been sought;
 - (e) analysed the compatibility with the [Draft] IFRS S2 Climate-related Disclosures published in March 2022 by the International Sustainability Standards Board (ISSB) of the International Financial Reporting Standards (IFRS)-Foundation, version that should evolve to become closer/interoperable to the [Draft] ESRS E1 in some instances, as documented in the tentative decisions made by the ISSB since March 2022; and
 - (f) considered relevant EU legislation, including, among others, Regulation (EU) 2019/2088, Regulation (EU) 2020/852, Regulation (EU) 2021/1119, Directive 2003/87/EC, Regulation (EC) No 1221/2009, Directive (EU) 2018/2001, Directive 2012/27/EU and Commission Recommendation 2013/179/EU.
- BC3. The objective of [Draft] ESRS E1 is derived from the CSRD, which states that the sustainability reporting standards shall specify information to disclose about climate change mitigation and climate change adaptation.
- BC4. The [Draft] ESRS E1 in addition covers disclosure requirements for energy consumption, which is an important determinant of an undertaking's GHG emissions and a driver for climate-related transition risk.
- BC5. The following table presents relevant sources that have been considered for the development of the Disclosure Requirements in [Draft] ESRS E1 while in some cases providing further information on requirements in ESRS 2 General disclosures:

[draft] ESRS E1 DRs	Required by CSRD	SFDR, Pillar III, EU Benchmarks, EU Climate Law references	References to other reporting frameworks
ESRS 2 GOV 3 – E1	Art. 19a §2 (e)	Commission, Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019), Recommended disclosures and further guidance 3.2	TCFD, Final Report Recommendations (2017), Metrics and Targets – Recommended disclosure (a) CDP, Questionnaire (2021), C1.3 IFRS S2 §5 (f) and §21 (g)
DR E1-1	Art. 19a §2 (a) (iii)	EU Climate Law Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Standards Regulation) Art. 2, 12.1 and 12.2 EBA Pillar 3: Capital Requirements Regulation Art. 449a; Template 1: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity	TCFD, Guidance on metrics, targets, and transition plans (2021), Strategy - Recommendation (b) IFRS S2 §8 (a) and §13
ESRS 2 SBM 3 – E1	Art. 19a 2 §2 (a) (i)	Commission, Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019), Recommended disclosures and further guidance 3.1	TCFD, Final report recommendations (2017), Strategy – Recommended disclosure (c) IFRS S2 §8 (e) and §15
ESRS 2 IRO 1 – E1	Art. 19a §2 (e) (ii) and (f)	Commission, Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019), Recommended disclosures and further guidance 3.4	TCFD, Final report recommendations (2017), Strategy – Recommended disclosure (a) and Risk Management – Recommended disclosure (a) IFRS S2 §8 (a), §9, §12, §16 and §17 CDP, Questionnaire (2021), C2.1, C2.3 and C2.4
DR E1-2	Art. 19a §2 (d)	Regulation (EC) No 1221/2009 (EMAS) Annex IV B (b) and (g) Commission, Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019), Recommended disclosures and further guidance 3.2	TCFD, Final Report Recommendations (2017), Risk management – Recommended disclosure (b) IFRS S2 §7, 8 (c), §13 (a) and §17 (d)
DR E1-3	Art. 19a §2 (e) (iii)	Regulation (EC) No 1221/2009 (EMAS) Annex IV B (e) Commission, Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019), Recommended disclosures and further guidance 3.3	TCFD, Final Report Recommendations (2017), Strategy – Recommended disclosure (b) TCFD, Guidance on metrics, targets, and transition plans (2021), Cross-industry, climate-related metric categories CDP, Questionnaire (2021), C3.1 and C3.4 IFRS S2 §13 (a), §17 (d), §21 (e) and §22 (b)
DR E1-4	Art. 19a §2 (b)	SFDR PAI, Indicator 4 of Table 2 of Annex 1 Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Standards Regulation) Art. 6	TCFD, Final Report Recommendations (2017), Metrics and targets – Recommended disclosure (c) CDP, Questionnaire (2021), C4.1a, b and c

[draft] ESRS E1 DRs	Required by CSRD	SFDR, Pillar III, EU Benchmarks, EU Climate Law references	References to other reporting frameworks
		Regulation (EC) No 1221/2009 (EMAS) Annex IV B (d) Commission, Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019), Recommended disclosures and further guidance 3.2	Science Based Target Initiative (Corporate manual and Net-zero standard) IFRS S2 §13, 17 (d), §20 (d) and §23
DR E1-5		SFDR PAI, Indicators 5 and 6 of Table 1 of Annex 1 Regulation (EC) No 1221/2009 (EMAS) Annex IV C 2 (c) (i) Commission, Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019), Recommended disclosures and further guidance 3.5	GRI 302-1 and 302-3 CDP, Questionnaire (2021), C8.2 IFRS S2 §11 and Appendix B
DR E1-6		SFDR, PAI, Indicators 1, 2 and 3 of Table 1 of Annex 1 Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Standards Regulation) Art. 5 (1), 6, 8 (1) EBA Pillar 3 ITS (Emissions intensity metrics in terms of net turnover) Commission, Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019), Recommended disclosures and further guidance 3.5 Regulation (EC) No 1221/2009 (EMAS) Annex IV C 2 (c) (vi)	TCFD, Guidance on metrics, targets, and transition plans (2021), Cross-industry, climate-related metric categories GRI 305-1, 305-2, 305-3 and 305-4 CDP, Questionnaire (2021), C6.1, C6.2, C6.3, C6.5, C6.10, C5.1 and C5.2 IFRS S2 §20 (a), §21 (a) and §11
DR E1-7	Recital §47	EU Climate Law	IFRS S2 §13 (b) (partially covered) GRI 305-5
DR E1-8		Commission, Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019), Recommended disclosures and further guidance 3.4	TCFD, Final Report Recommendations (2017), Metrics and Targets – Recommended disclosure (a) CDP, Questionnaire (2021), C11.3 IFRS S2 §21 (f)
DR E1-9		Commission Delegated Regulation (EU) 2020/1816 (Climate Benchmark Standards Regulation) EBA Pillar 3 ITS: Capital Requirements Regulation Art. 449a; Final draft ITS, paragraphs. 46 and 47; Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk. Requirement for banks to disclose information on their exposures towards assets and investments subject to physical risk with a breakdown: (1) by geography (based	TCFD, Guidance on metrics, targets, and transition plans (2021), Cross-industry, climate-related metric categories IFRS S2 §8 (d), §14 (b), (c), (d), (e), §20 (a) and §21 (b), (c), (d)

[draft] ESRS DRs	Required by CSRD	SFDR, Pillar III, EU Benchmarks, EU Climate Law references	References to other reporting frameworks
		<p>on the location of the investment) and (2) between acute and chronic physical risk.</p> <p>EBA Pillar 3 ITS: Capital Requirements Regulation Art. 449a; Final draft ITS, paragraph. 34; Template 2: Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral. Requirement for banks to disclose information on their loans' real estate portfolio by the energy efficiency of the collateral (based on EPC label and/or energy intensity).</p> <p>Commission, Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019), Recommended disclosures and further guidance 3.4</p>	

- BC6. Additional performance measures deemed relevant for the future enhancement of ESRS E1 particularly through the sector standards are presented as part of this Basis for conclusions although these have not been included in the [Draft] Standard, as this reflects the disclosures that are needed with priority. These performance measures relate to use of green hydrogen in BC78, energy intensity in BC87 to BC89, and GHG emissions intensity in BC 140 to BC 143.
- BC7. Should the undertaking decide to provide information on these performance measures on a voluntary basis, it may consider best practices and preliminary orientations presented in this Basis for conclusions.

Disclosure Requirements

ESRS 2 General disclosures

Disclosure Requirement related to ESRS 2 GOV-3 Integration of sustainability-related performance in incentive schemes

- BC8. The objective of Disclosure Requirement related to ESRS 2 GOV-3 is to provide transparency on the governance tools implemented by the undertaking to reduce GHG emissions, ensure the achievement of GHG emission reduction targets and address climate-related risks and opportunities.
- BC9. This Disclosure Requirement relies on the European Commission Guidelines, which suggest the undertaking to report on whether and how the remuneration policy takes into account climate-related performance, including performance against targets set. It builds on a similar recommendation of the TCFD 2017 recommendations and a requirement of the CDP questionnaire. It also addresses a disclosure objective consistent with the [Draft] IFRS S2 that introduces a disclosure metric on the proportion of executive management remuneration affected by climate-related considerations in the current period.
- BC10. Paragraph 12 is considered important information for users to gain insights on whether the financial interests of the board and the management and operation levels are aligned with climate-related targets. There is a focus on the link with the achievement of GHG emission reduction targets as this category of climate-related targets is deemed primarily significant based on the impact and financial materiality assessment.

- BC11. This Disclosure Requirement was originally considered as an application requirement, but it was moved to main body to be closer to the [Draft] IFRS S2 organization of content under its Governance and Strategy sections, as well as to ensure that all disclosure requirements are embedded in the main part of the standards while requirements and recommendations on determination and presentation to foster consistency are accommodated by Appendix B of the standards.

Disclosure Requirement E1-1 – Transition plan for climate change mitigation

- BC12. The objective of Disclosure Requirement E1-1 is to provide an understanding of the transition plan of the undertaking and its compatibility with limiting global warming to 1.5°C.
- BC13. This Disclosure Requirement is derived from Art. 19a (2) (a) (iii) of the CSRD, which requires the reporting of “the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the ‘Paris Agreement’) and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council, and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities”. The TCFD Guidance on Metrics, Targets and Transition Plans refers to “plans for transitioning to a low-carbon economy, which could include GHG emissions targets and specific activities intended to reduce GHG emissions in their operations and value chain or to otherwise support the transition”. The [Draft] IFRS S2 refers to “transition plan” as an aspect of an undertaking’s overall strategy that lays out its targets and actions for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions. The US Securities and Exchange Commission (SEC) Enhancement and Standardisation of Climate-Related Disclosures for Investors proposed rule (SEC Proposed rule) refers to “transition plan” as an undertaking’s strategy and implementation plan to reduce climate-related risks.
- BC14. The transition plan is a cross-cutting instrument that contains different elements related to strategy, policies, targets, action plans and resources. The disclosure should reference but not duplicate information from other sections of the [Draft] Standard. An undertaking’s transition plan includes but is not limited to its climate change mitigation action plan. The climate change mitigation action plan is more specific and provides an overview of key actions taken or planned to achieve a GHG emission reduction target or to implement a climate change mitigation policy, including timelines, responsibilities, (expected) outcomes and allocated resources.
- BC15. Users need to understand how the undertaking 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 TCFD recommendations assert that investors and other stakeholders are interested to understand how climate change can affect the undertaking’s business strategy over the short-, medium- and long-term, since this informs the expectations about the undertaking’s future performance¹. Civil society organisations, governmental bodies, consumers, workers and people affected by the consequences of climate change, among others, are increasingly interested to understand how the undertaking’s current business model and strategy drive GHG emissions in own operations but also along the value chain and if the undertaking has a credible transition plan in place that is compatible with limiting of global warming to 1.5°C.
- BC16. Paragraph 15 (a) provides transparency on how the undertaking 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. This compatibility is to be demonstrated by disclosing a GHG emissions reduction target benchmarked in relation to a pathway to 1.5°C.

¹ TCFD, “Final Report Recommendations of the Task Force on Climate-related Financial Disclosures”, 2017, p. 20. Available [here](#).

- BC17. Paragraphs (b) and (c) aim to ensure that the transition plan is concretely translated into the undertaking's operational and financial processes, and consequently embedded into business planning. The disclosure of actions and resources supporting the implementation of the transition plan intends to demonstrate the modelling effort performed by the undertaking and the seriousness of its roadmap.
- BC18. Paragraph 15 (d) regarding locked-in emissions of key assets and products indicates to users the viability of an undertaking's transition plan and GHG emission reduction targets and is an indicator of the risk of stranded assets. Initially this Disclosure Requirement considered quantitative locked in emissions; however, as a result of the public consultation it was decided that quantitative information was more relevant for specific sectors.
- BC19. Paragraph 15 (e) considers that an undertaking's Taxonomy-alignment is meaningful information to demonstrate the consistency of its transition plan and how it would help the achievement of the taxonomy technical screening criteria. The disclosure of exposure to fossil activities included in AR 4 and AR 5 reflects the added paragraph in the final CSRD.
- BC20. Paragraph 15 (f) was included to be consistent with the requirements in EBA Pillar 3 ITS, template 1: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity.

Disclosure Requirement related to ESRS 2 SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model(s)

- BC21. The objective of Disclosure Requirement related to ESRS 2 SBM-3 is to provide an understanding of whether the undertaking's strategy and business model(s) can withstand material climate-related risks over time and under different plausible future states.
- BC22. This Disclosure Requirement builds on Recital 47 of the CSRD, which states that "users are interested in knowing about undertakings' [...] resilience as regards, and plans to adapt to, different climate scenarios". It is also aligned with the European Commission's Guidelines on non-financial reporting, which recommend the undertaking to describe the resilience of its business model and strategy taking into consideration different climate-related scenarios over different time horizons, including $\leq 2^{\circ}\text{C}$ and $> 2^{\circ}\text{C}$ scenarios. Its disclosure objective is consistent with the TCFD recommendations and [Draft] IFRS S2, which propose the entity to disclose an analysis of the resilience of the strategy to significant climate-related risks and opportunities.
- BC23. This Disclosure Requirement relates to the scope of the resilience analysis, how the resilience analysis is conducted, and its results. This structure aims to provide the necessary transparency on the complexity and uncertainty related to the likelihood, magnitude and timing of climate-related risks and opportunities affecting the undertaking after risk remediation actions.
- BC24. Paragraphs 17 (a) and AR 7 support the need for a faithful representation of the resilience analysis and strengthens comparability of the resilience results across undertakings by requiring the disclosure of the scope of the resilience analysis.
- BC25. Paragraphs 17 (b) and AR 8 aim to increase the understandability of how the undertaking considers the uncertainties associated with future material climate-related risks and opportunities through the disclosure of the analytical tools used, such as climate-related scenario analysis (see IROs assessment below). It also aims to facilitate the robustness and verifiability of the resilience results through the disclosure of the critical assumptions made as well as the time horizons and the climate and business scenarios used.
- BC26. Paragraphs 17 (c) and AR 9 enable users to understand how the materialisation of the undertaking's material climate-related risks could affect the way it creates value and the mechanisms with which the strategy and business model(s) can absorb or recover from these effects.
- BC27. Climate-related scenario analysis is considered a highly useful approach to test the current business model of the undertaking and its strategies against a spectrum of possible future climate states.

- BC28. This Disclosure Requirement was originally considered as an application requirement, but it was moved to main body to be closer to the [Draft] IFRS S2 organization of content under its Strategy section, as well as to ensure that all disclosure requirements are embedded in the main part of the standards while requirements and recommendations on determination and presentation to foster consistency are accommodated by Appendix B of the standards.

Disclosure Requirement related to ESRS 2 IRO-1 – Description of the processes to identify and assess material climate-related impacts, risks and opportunities

- BC29. The objective of Disclosure Requirement related to ESRS 2 IRO-1 is to provide transparency on the approach taken by the undertaking to identify and assess its climate-related impacts, risks and opportunities and the outcome of its identification and materiality assessment process.
- BC30. This Disclosure Requirement builds on Recital 47 of the CSRD, which states that “users are interested in knowing about undertakings’ physical and transition risks”. It also addresses a disclosure objective consistent with the European Commission Guidelines, [Draft] IFRS S2, TCFD recommendations and CDP questionnaire, all of which ask the undertaking to describe processes for identifying and assessing climate-related risks and opportunities.
- BC31. This Disclosure Requirement is subdivided in (i) impacts on climate change (paragraphs 18 (a), AR 10 and AR 11), (ii) climate-related physical risks (paragraphs 18 (b) and AR 12), and (iii) climate-related transition risks and opportunities (paragraphs 18 (c) and AR 13). It reflects the disclosure on the undertaking’s double materiality assessment required in ESRS 2 IRO-1. Based on the importance of the climate policies in the EU and in alignment with ESRS 1 materiality chapter, climate change has been assessed as material for all undertakings under the double materiality lens.
- BC32. Paragraphs 18 and 19, as well as AR 10 to 16 aim to provide relevant information for users following different purposes. There is a well-founded need among the public in general, and among investors, credit institutions and other stakeholders, who rely on an undertaking’s ability to create value over the short-, medium- and long-term, to understand how it impacts climate change, is exposed to climate-related transition and physical risks and identifies transition opportunities. Furthermore, the processes the undertaking has implemented to identify and assess the IROs aim to strengthen the reliability, credibility and comparability of the disclosed material climate-related impacts, risks and opportunities.
- BC33. Paragraph AR 10 is based on the rationale that an undertaking’s adverse impacts on climate change primarily originate from its direct and indirect GHG emissions. The disclosure proposed here should provide insights on how the undertaking identified and assessed the sources of GHG emissions under its own control and within its value chain and whether and how it considers additional impacts on climate change (e.g., emission of certain short-lived climate forcers or land use changes).
- BC34. The separate disclosure of physical risks (paragraph AR 12) and transition risks and opportunities (paragraph AR 13) is premised on the conclusion that physical risks and transition risks and opportunities can affect the undertaking and its ability to create value in different ways. To ensure relevant information being disclosed, undertakings should state whether and how they have considered climate scenarios aligned with limiting climate change to 1.5°C for the identification and assessment of their transition risks and opportunities and high-emission scenarios for the identification and assessment of their physical risks (AR 14 to 16).
- BC35. Paragraph AR 14 and 15 are intended to provide users with an understanding of how climate-related scenario analysis has informed the risk and opportunity identification and assessment process.

- BC36. This Disclosure Requirement was originally considered as an application requirement, but it was moved to main body to be closer to the [Draft] IFRS S2 organization of content under its Strategy section, as well as to ensure that all disclosure requirements are embedded in the main part of the standards while requirements and recommendations on determination and presentation to foster consistency are accommodated by Appendix B of the standards.

Impact, risk and opportunity management

Disclosure Requirement E1-2 – Policies related to climate change mitigation and adaptation

- BC37. The objective of Disclosure Requirement E1-2 is to provide transparency on all policy commitments in place regarding climate change.
- BC38. This Disclosure Requirement builds on Art. 19a 2 (d) of the CSRD, which asks for a “description of the undertaking’s policies in relation to sustainability matters”. It is also aligned with the European Commission Guidelines on non-financial reporting, which recommend the undertaking to describe any company policies related to climate, including any climate change mitigation or adaptation policy. Although the TCFD recommendations and [Draft] IFRS S2 do not refer to the concept of climate policies, it is implicitly covered by both documents. The [Draft] IFRS S2 requires entities to describe process(es) used by the undertaking to monitor and manage the climate-related risks and opportunities, including related policies. The TCFD recommendations propose the disclosure of the description of the organisation’s processes for managing climate-related risks, including how decisions to mitigate, transfer, accept, or control these risks are made.
- BC39. Paragraph 23 provides examples of policies related to climate change, as a way to enhance the comparability and facilitate the digitisation of such information.

Disclosure Requirement E1-3 – Actions and resources in relation to climate change policies

- BC40. The objective of Disclosure Requirement E1-3 is to provide transparency on the key actions and resources taken and planned to achieve climate-related targets and to manage GHG emissions, physical and transition risks and opportunities. It informs on the credibility of the undertaking’s policies, strategy and business model with regards to climate change by demonstrating that they are embedded into the business planning.
- BC41. Users are interested in forward-looking action plans and financial decisions that are driven by an undertaking’s climate policies and targets. In particular, when the undertaking develops and discloses a climate change mitigation action plan, it provides certainty to users that the company is adhering to its short-, medium- and long-term climate goals and that its business model will continue to be relevant in a net-zero carbon economy. Disclosing the resources allocated to such action plans enables users to assess the reliability and robustness of such plans.
- BC42. This Disclosure Requirement builds on Art. 19a 2 (f) (iii) of the CSRD, which requires “a description of any actions taken by the undertaking to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the result of such actions”. It is also aligned with the European Commission Guidelines on non-financial reporting, which recommend that the undertaking should demonstrate the consistency of its actions related to climate change in assessing its performance through target setting and reporting against the targets.

- BC43. While the [Draft] IFRS S2 and TCFD recommendations do not use the term "action plans", the [Draft] IFRS S2 requires the disclosure of "adaptation and mitigation efforts" and the TCFD recommendations propose the description of "adaptation and mitigation activities". More specifically, the [Draft] IFRS S2 provides examples of direct efforts such as changes in production processes or the introduction of efficiency measures, as well as indirect efforts such as working with customers and supply chains or use of procurement. And the TCFD recommendations propose disclosing specific activities intended to reduce GHG emissions in their operations and value chain or to otherwise support the transition.
- BC44. The [Draft] IFRS S2, TCFD recommendations and CDP questionnaire all refer to the concept of "financial planning", which is observed to be related to the ESRS concept of "resources". The [Draft] IFRS S2 requires the disclosure of how climate-related risks and opportunities are included in the entity's financial planning, while the TCFD recommendations suggest disclosing the actual and potential impacts of climate-related risks and opportunities on the organisation's financial planning. Moreover, these guidance introduce the metric of "capital deployment" as the amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities, which is considered an equivalent of the ESRS concept of "resources".
- BC45. This Disclosure Requirement is structured in two parts – the actions (paragraph 27 (a) and (b) and AR 20); and the resources (paragraph 27 (c) and AR 21 to AR 23). This structure aims to demonstrate that policies and targets are incorporated into the undertaking's operational and financial processes.
- BC46. The Application Requirements of Disclosure Requirement E1-3 establish consistent rules for the disclosure of action plans and resources in order to make the information more reliable and comparable.
- BC47. Paragraph AR 20 enables the undertaking to clarify how it intends to achieve its GHG emission reduction target, and consequently, to demonstrate its modelling effort and the seriousness of its roadmap. The expected outcomes may depend on many external factors and this forward-looking information is rather indicative. But with expected outcomes, the target is no longer a top-down decision for communication purposes, it becomes a strategic plan embedded into the business planning and operations.
- BC48. Paragraph AR 20 (c) offers the possibility to disclose actions, resources and targets together, disaggregated by decarbonisation levers.
- BC49. In line with the demand to reduce the reporting burden and the cost-benefit analysis results, the requirement under paragraph 27 (c), as stated also in paragraph AR 21, is limited to only significant CapEx and OpEx amounts and to incremental expenditures directly contributing to the achievement of the undertaking's targets. Opex have been kept for consistency with Taxonomy regulation as well as to address sectors where the means to reduce GHG emissions do not primarily rely on CapEx.
- BC50. Paragraph AR 22 aims that the undertaking demonstrates that the climate action plan is fully embedded or to be fully embedded into its business and financial planning. This should foster integrated thinking and reporting. While both CapEx and OpEx related to the climate action plan should be disclosed, reporting systems are usually not structured to identify OpEx relating to a climate action plan. The identification of FTE dedicated to a climate action plan may be difficult due to the fact that many people managing climate are part-time. Therefore, the purpose of this information is to demonstrate the credibility of the undertaking's actions rather than to reconcile the disclosed amounts to the financial statements as stated in AR 21.
- BC51. Paragraph AR 23 aims to ensure consistency between the amounts of CapEx and OpEx disclosed in Disclosure Requirement E-3 and these metrics presented under the Taxonomy Article 8 disclosures. When it comes to the CapEx plan, the one requested under Article 8 of the Taxonomy Regulation may well fit the purpose. But the disclosure of CapEx and OpEx should not be limited or restricted to the Taxonomy Article 8 disclosures, as the CapEx and OpEx associated with activities non-eligible to the Taxonomy might also be relevant to the action plans for climate mitigation and adaptation. Accordingly, climate-related CapEx and OpEx may be higher but not lower in amount than these metrics disclosed under the Taxonomy regulation.

Metrics and targets

Disclosure Requirement E1-4 – Targets related to climate change mitigation and adaptation

- BC52. The objective of Disclosure Requirement E1-4 is to provide an understanding of the targets the undertaking has adopted to support its climate change mitigation and adaptation policies and to address its material climate-related impacts, risks and opportunities.
- BC53. This disclosure relies on Art. 19a 2 (b) of the CSRD, which requires “a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets, and a statement of whether the undertaking’s targets related to environmental factors are based on conclusive scientific evidence”. It also builds on the European Commission Guidelines on reporting climate-related information, which recommends the description of “any climate-related targets the company has set as part of its policies, especially any GHG emissions targets, and how company targets relate to national and international targets and the Paris Agreement in particular”. Finally, it is aligned with the EU Climate Benchmark Regulation², which states in Art. 6 that administrators of EU Climate Transition Benchmarks and administrators of EU Paris-aligned Benchmarks may increase in those benchmarks the weight of the issuers of the constituent securities that set and publish GHG emission reduction targets, where the following conditions are fulfilled: (a) the issuers publish consistently and accurately their Scope 1, 2 and 3 GHG emissions; and (b) they have reduced their GHG intensity or, where applicable, their absolute GHG emissions, including Scope 1, 2 and 3 GHG emissions, by an average of at least 7% per annum for at least three consecutive years.
- BC54. It addresses a disclosure objective consistent with contents of the [Draft] IFRS S2, TCFD recommendations, CDP questionnaire, and Science-Based Target initiative (SBTi) net-zero standard and corporate manual. For instance, [Draft] IFRS S2 requires the disclosure of information regarding climate-related targets, including the processes in place for review of the targets, the amount of the undertaking’s emission target to be achieved through emission reductions within the value chain, and the intended use of carbon offsets in achieving emissions targets. It also requires, for each climate-related target, the disclosure of metrics used to assess progress, the specific target the entity has set, whether it is absolute or intensity-based, the objective, and the timeline. Similarly, the TCFD recommends describing the targets used to manage climate-related risks and opportunities and performance against targets, including whether it is absolute or intensity-based, timeframes, base year and key performance indicators used. The ESRS E1 follows a more granular approach than these international initiatives in order to increase comparability across undertakings, for instance by requiring the disclosure of the scope of the target. It also adopts a more conservative perspective in order to limit greenwashing, for instance, by providing a strict framework for the disclosure of net-zero targets and other neutrality claims and consequently for the use of removals and carbon credits in climate-related targets.
- BC55. Regarding climate change mitigation targets, stakeholders need to understand the GHG emission reductions that the undertaking intends to achieve in the future and their effectiveness in ensuring compatibility with limiting global warming to 1.5 °C. Regarding climate change adaptation targets, stakeholders need to understand how the undertaking manages physical risks resulting from climate change and reduces its vulnerability. Thus, targets for climate change mitigation and adaptation are useful forward-looking information that undertakings shall disclose. Robust climate change mitigation and adaptation target setting relies on modelling efforts that require deep integrated thinking on the business model, the market demand evolution, the products carbon intensity performance, the sourcing strategy, etc.

² Commission Delegated Regulation (EU) 2020/1818 of July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks. Available [here](#).

- BC56. This disclosure includes two levels of requirements, depending on the type of target disclosed:
- (a) the first level relates to all types of general climate-related targets, for example, targets on energy efficiency improvement, deployment of renewable energy, as well as for targets related to climate change adaptation or the management of climate-related risks. These requirements are aligned with Disclosure Content – Targets (DC-T) in ESRS 2;
 - (b) the second level of requirements introduces additional requirements specifically for the disclosure of GHG emission reduction targets (Paragraph 32). These additional requirements are considered necessary to ensure faithful and credible reporting of GHG emission reductions and to fulfil the needs of users who want to understand the target's ambition and if the undertaking is on track in achieving the target.
- BC57. Paragraph 32 (a) will provide transparency on the level of ambition to be achieved by the undertaking, including whether the target is absolute or relative and in which unit it is measured. GHG emission reduction targets in absolute values shall be prioritised because absolute reductions of GHG emissions are necessary to achieve the EU target of climate neutrality and limiting climate change to 1.5°C in line with the Paris Agreement. GHG emission reduction targets in relative terms (i.e. GHG emissions per unit of production) may be disclosed in addition to related targets in absolute values, if these are deemed meaningful by the undertaking. The usefulness of disclosing relative targets is to allow for a comparison over time independently from the changes in production or sales. Such targets, however, require a robust and comparable denominator, which depends on the sector, economic activities and products and services of the undertaking. Therefore, reporting on relative targets and performance indicators may be considered by EFRAG when developing sector-specific ESRS.
- BC58. Paragraph 32 (b) will provide transparency on the scope of the climate-related targets an undertaking discloses. For GHG emission reduction targets, the requirement seeks to ensure consistency with GHG inventory boundaries, and the information disclosed under Disclosure Requirement E1-6. Undertakings should disclose their GHG emission reduction targets for all three Scopes identified by the GHG protocol. They may do so through a combined target or separate targets. The purpose of the disclosure requirement is to show how the undertaking intends to reduce GHG emissions in its own operations and its value chain. Therefore, in developing this [Draft] Standard it has been assumed that GHG removals, carbon credits or avoided emissions from products and services should not be part of the disclosure on GHG emission reduction targets and progress made towards their achievement.
- BC59. Paragraph 32 (c) will provide transparency on the base year and baseline value from which progress is measured. Diverging base years for climate-related targets are a key impediment to the comparability of targets. Moreover, the lack of requirements on the representativeness of the baseline value can lead to situations where the ambition level of a target may be over- or underemphasised by the reporting entity. For example, if a base year with a disproportionately high baseline value is chosen, the undertaking is able to set more “ambitious” targets as compared to a baseline value that is representative of its activities. The specific provisions in the application requirement for selecting the base year, and the requirement of a uniform base year for GHG emission reduction targets from 2025 onwards, are consequently introduced to ensure representativeness and faithful representation and improve comparability of targets over time and between different undertakings.

- BC60. Paragraph 32 (d) will provide transparency on the timeframe to achieve the targets including any milestones or interim targets. The disclosure of interim targets is especially important for longer-term targets. Users should be able to understand the milestones the undertaking plans to achieve in order to meet its climate-related targets. Regarding GHG emission reduction targets, a requirement is introduced to disclose target values at least for 2030 and, if available for 2050; from 2030, target values are to be set after every five-year period. It was considered that clear provisions for target years and milestones will increase comparability of undertakings' GHG emission reduction targets and support alignment with the EU climate goals (-55% in 2030 and climate neutrality in 2050). Target intervals of five years are considered an acceptable timeframe to implement management plans and monitor improvements in line with the public policy milestones.
- BC61. Paragraph 32 (e) will provide insights in how the undertaking has set its GHG emission reduction targets, including the critical assumptions used to define targets, as well as whether the GHG emission reduction targets are science-based or not, which has substantive influence on the users' assessments of the robustness and credibility of targets. Paragraphs 32 (e) and (f) include a presentation requirement of GHG emission reduction targets (science-based reference and by decarbonisation lever) which is further elaborated and underpinned by examples in paragraph AR 31. The purpose of the presentation requirement is to assist users in evaluating the ambition level of the undertaking's GHG emission reduction target. In line with the methodology of the SBTi, the [Draft] Standard proposes that the undertaking's GHG emission reduction target is compared to a hypothetical science-based, 1.5 °C-aligned, target. The reference target value should, if available, be calculated based on sectoral decarbonisation pathways rather than on a cross-sectoral pathway.
- BC62. Paragraph AR 27 to 31 will provide transparency on the overall progress towards reference target values. For GHG emission reduction, the undertaking is required to explain how different decarbonisation levers (e.g., energy or material efficiency and consumption reduction, fuel switching, use of renewable energy or product and process change, phase out or substitution) will contribute to the achievement of the target. This will further demonstrate to users how robust the decarbonisation pathway of the undertaking is and how it will be operationalised. For consistency, the application requirement introduces a cross-reference to the climate change mitigation action plan (Disclosure Requirement E1-3), which is also referenced in Disclosure Requirement E1-1 on transition plans for this purpose. It is important to note that the decarbonisation levers are not expected to be precise forecasts of GHG emission reductions. These are rather intended as indicative estimates derived from the undertaking's short-, medium- and long-term plans to reduce emissions in its own operations and value chain. For users, it will be important to understand the assumptions of the undertaking in determining the decarbonisation levers and whether these depend on new, maybe currently inexistent or not market-ready technologies, and whether they were derived by considering different climate scenarios to detect relevant environmental-, societal-, technology-, market- and policy-related developments.
- BC63. Other disclosure requirements on energy and climate-related targets have been considered and may be retained in future updates of this [Draft] Standard or in future sector-specific standards to address specific EU policy objectives, particularly in relation to buildings, transport and the use of information and communication technology (ICT):
- (a) activity energy intensity for undertakings belonging to the sectors that have high climate impact (expressed in kWh/unit of production);
 - (b) office energy intensity for all undertakings (office buildings occupied as tenant or owner expressed in kWh/m²);
 - (c) GHG intensity of the undertaking's tertiary activities (occupied offices buildings and business travels expressed as kg CO₂eq/FTE);
 - (d) GHG intensity of the undertaking's logistics (transportation of goods expressed in tonnes CO₂ eq/tonnes of goods transported, covering tier 1 upstream and downstream, paid or not paid transportation); and
 - (e) absolute or intensity targets on ICT-related GHG emissions reductions (such as cloud computing and data centre services).

Disclosure Requirement E1-5 – Energy consumption and mix

- BC64. The objective of Disclosure Requirement E1-5 is to provide an understanding of the undertaking's absolute energy consumption, its improvement in energy efficiency and the share of renewable energy in its overall energy mix.
- BC65. This subtopic provides relevant information for users according to the impact materiality assessment.
- BC66. Energy accounts for a significant share of worldwide GHG emissions, and energy-related activities represent the most significant GHG emission sources for many sectors such as industrials, transportation and construction/real estate activities. In particular, the combustion of fossil fuels such as coal, oil and gas emits carbon dioxide gas into the atmosphere. Globally, energy use accounts for around three-quarters of GHG emissions and two-thirds of the growth of GHG emissions³. In the European Union, the energy sector contributes over 75% of total GHG emissions⁴. In addition to its significant contribution to climate change, it is commonly agreed that human production and use of energy have further impacts on the environment and society.
- BC67. Based on the above, the reporting on energy consumption and its breakdown by sources is a primary input for the calculation of direct and indirect GHG emissions. It reflects the dependence of the undertaking on different types of fossil fuels, each being associated with GHG emissions and other environmental and social impacts. Over time, the breakdown by non-renewable and renewable sources enables preparers and users to track efforts for decarbonising the undertaking's energy mix and its extent of deployment of renewable energy.
- BC68. Consequently, this Disclosure Requirement is also important because it supports the EU Energy Efficiency and Renewable Energy policies aiming at reducing energy use and developing the share of renewable energy. In this context, companies have two main levers for action to combat climate change and lower their environmental footprint throughout the generation, transmission, distribution and end-use of energy. They must decarbonise their energy mix by getting rid of fossil fuel sources and opting for renewable and low-carbon energy sources, and they must save energy by reducing energy consumption and using energy more efficiently, particularly in the context of energy crisis in Europe.
- BC69. Hence, the CSRD states in Recital 48 that "achieving a climate-neutral [...] economy [...] requires the full mobilisation of all economic sectors", in particular "reducing energy use and increasing energy efficiency is key in this respect as energy is used across supply chains". It concludes that "energy aspects should therefore be duly considered in sustainability reporting standards, in particular in relation to environmental matters, including climate-related matters".
- BC70. This subtopic also provides relevant information for users according to the financial materiality assessment.
- BC71. Decarbonising industrial processes and saving energy allow the undertaking to enhance its competitiveness in terms of cost reductions, limit its environmental liabilities, and grants better preparation for future environmental regulations, thereby decreasing the transition risk exposure of the undertaking.

³ IEA, "Net Zero by 2050 a Roadmap for the Global Energy Sector", 2021. Available here. IAE, "Global Energy and CO₂ Status Report", 2019). Available [here](#).

⁴ Proposal for a Directive COM/2021/557 of the European Parliament and of the Council amending the Directive (EU) 2018/2001 of the European Parliament and of the Council, Regulation (EU) 2018/1999 of the European Parliament and of the Council and Directive 98/70/EC of the European Parliament and of the Council as regards the promotion of energy from renewable sources, and repealing Council Directive (EU) 2015/652. Available [here](#).

- BC72. Moreover, the disclosure of energy consumption and mix in absolute value provides key performance indicators that allow providers of financial capital to assess the level of financial risk stemming from energy consumption linked to GHG emissions. It is observed that energy-based metrics are required by both the SFDR and European Supervisory Authorities ('ESAs') in their supervisory rulebooks for financial institutions to assess climate-related risks that could affect financial stability.
- BC73. Initially this Disclosure Requirement considered requiring a breakdown of non-renewable sources of energy; however, as a result of the public consultation it was decided to require this information only for high climate impact sectors, as this is an additional table 2 SFDR indicator (paragraph 35 (a)). It has also been adapted from the CDP questionnaire and GRI Standards relating to energy consumption of the organisations.
- BC74. The Application Requirements of this Disclosure Requirement establish consistent rules for the disclosure of energy consumption and mix in order to make the information reliable and comparable.
- BC75. Paragraph AR 32 (a) supports the need for consistent information by linking the perimeter of the reported energy consumption in relation to the perimeter of the reported Scope 1 and 2 GHG emissions.
- BC76. Paragraph AR 32 (f) requires that all quantitative energy-related information shall be reported in terms of final energy consumption as final energy is easier to collect for preparers and such reporting is the most frequent market practice.
- BC77. Paragraph AR 32 (l) aims to ensure the faithful representation of the information disclosed by setting a conservative approach when splitting the electricity, steam, heat or cooling energy between renewable and non-renewable sources.
- BC78. An additional energy-related indicator deemed relevant for the enhancement of the ESRS is identified for the future sector-specific standards. Undertakings that pursue activities in the sectors for which the use of hydrogen is relevant may disclose the share of green hydrogen in the total energy consumption (%). The disclosure aims to support EU sub-targets for renewable hydrogen and hydrogen-based synthetic fuels in transport (2.6%) and in industry (50% share in hydrogen consumption) from the proposal for a revised Renewable Energy Directive in the "Fit for 55" Package. It should be closely aligned with the related EU legislation still under discussion.

Energy intensity based on net revenue

- BC79. The objective of this requirement is to meet the information needs of financial market participants subject to the SFDR. It allows an understanding of the energy intensity in high climate impact sectors.
- BC80. The SFDR requires financial market participants to disclose the energy intensity per revenue of their investee companies. It is, therefore, necessary that undertakings pursuant to the CSRD report that information through the ESRS. Indeed, preparers/investee companies have an insight position (knowledge of energy and revenues details) allowing to finetune the calculation of the energy per revenue ratio (adjustment of the perimeter for both numerator on energy consumption and denominator on revenues) and are better positioned to do this than the financial market participants (investors or analysts) themselves.
- BC81. The concepts of "energy efficiency" and "energy intensity" are interrelated. The IPCC specifies that energy efficiency is often described by energy intensity while providing definitions of both terms. 'Energy efficiency' means "the ratio of output or useful energy or energy services or other useful physical outputs obtained from a system, conversion process, transmission or storage activity to the input of energy". 'Energy intensity' describes "the ratio of economic output to energy input in economics".
- BC82. This subtopic provides relevant information according to both the impact and financial materiality assessments.

- BC83. The IPCC's Special Report on Global Warming of 1.5°C states that 1.5°C pathways include energy-demand reductions through efficiency improvements and demand-reduction measures. Thus, energy efficiency coupled with energy use reduction (sobriety) are generally considered in policy as the primary measures to reduce energy demand through technological options such as insulating buildings, more efficient appliances, efficient lighting, efficient vehicles, etc.
- BC84. More specifically, the European Commission's proposal for a new Energy Efficiency Directive outlines that "while the energy savings potential remains large in all sectors, there is a specific challenge related to transportation sector, as it is responsible for 30% of final energy consumption, and to buildings sector, since 75% of the Union building stock has a poor energy performance". "Another important sector to which increasing attention is being paid is the information and communications technology (ICT) sector, which is responsible for 5-9% of the world's total electricity use and more than 2% of all emissions".
- BC85. The usefulness of energy intensity per revenue is to allow users to compare companies from one year to another, eliminating perimeter effects (potential acquisitions/divestments in assets for instance that could increase/reduce absolute GHG emissions). It also enables comparability between organisations in the same sector.
- BC86. Although the disclosure of energy intensity per revenue fosters comparability, intensity ratio per revenue is not the most relevant and reliable indicator for non-financial sectors for the below reasons:
- (a) it may be less environmentally robust due to the volatility of economic metrics;
 - (b) it may not be correlated with emissions tied to physical production processes, especially for sectors with high price fluctuations; and
 - (c) target progress may be difficult to track if undertakings experience financial losses in certain years.
- BC87. Therefore, two additional intensity indicators deemed relevant for the future enhancement of the ESRS are identified, although they are not prioritised for this [Draft] Standard.
- BC88. The first one relates to the energy intensity per activity (MWh/unit of production) and are relevant to the undertakings that pursue activities in high climate impact sectors. Denominators that rely on sectoral production units are considered to increase the quality and relevance of information. However, since these denominators are only comparable for companies in the same sector, the disclosure is particularly relevant for companies belonging to high climate impact sectors and hence should be considered for sector-specific standards.
- BC89. The second one relates to the energy intensity of buildings (MWh/m²) in order to be aligned with EU green buildings objectives and to support the proposal for recasting the EU Energy Efficiency Directive. Since all undertakings are occupying offices, the disclosure is relevant for all undertakings whatever the sector. However, this disclosure requirement will only be part of a later set of ESRS (i.e., sector-specific ESRS that will be issued later), as it must be segmented by building types (offices, hotels, shopping centres, etc.) according to sector-specific standards.

Disclosure Requirements E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions

- BC90. The objective of Disclosure Requirement E1-6 is to provide transparency on the GHG emissions arising from the undertaking's activities. The disclosure of GHG emissions is a central component of the [Draft] ESRS E1, which encompasses the calculation of three scopes of calculation: Scope 1 covering direct emissions from owned or controlled sources; Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting undertaking; and Scope 3 including all other indirect emissions that occur in the undertaking's value chain.
- BC91. This Disclosure Requirement builds on the definitions and rules of the GHG Protocol to reduce the burden for the undertakings that already apply it, as this framework is considered the leading accounting standard for GHG emissions. Disclosure Requirement E1-6 has also taken into consideration GRI 305 and ISO 14064-1:2018.

- BC92. As outlined by the latest IPCC reports, human activities, notably in the industrials, buildings, transportation, energy and agriculture sectors, represent the main sources of GHG emissions. These activities increase the carbon concentration in the atmosphere, causing an additional greenhouse effect and generating radiative forcing. This triggers environmental consequences and further raise social issues.
- BC93. In this context, since 2015 the EU Member States are committed to the Paris Agreement which entails limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C above pre-industrial levels.⁵ The governments are expected to increase efforts in climate change mitigation and adaptation as the consequences of climate change for humans and ecosystems become more frequent and prominent.
- BC94. At the EU level, the European Green Deal⁶ was launched in 2019 with the aim to tackle current climate and environmental challenges. As one of its key elements, the European Climate Law⁷ enshrines the EU's commitment to reaching climate neutrality by 2050 and the intermediate target of reducing net GHG emissions by at least 55% by 2030, compared to 1990. By 2050, the EU's GHG emissions must be net zero⁸ and economic growth decoupled from resource use.
- BC95. In July 2021, the European Commission published the “Fit-for-55” package⁹. It consists of a “chapeau communication” and 15 interconnected legislative proposals, aiming to deliver the European Green Deal and set the EU's climate and energy framework on course to meet the new target of reducing GHG emissions by at least 55% by 2030 compared to 1990 levels. It notably includes: a review of the EU ETS, a proposal for establishing a Carbon Border Adjustment Mechanism (CBAM) and several other initiatives, including an update of the Energy Taxation Directive; a new social climate fund to protect vulnerable households; stricter emissions standards for cars (proposing to end the sale of petrol and diesel cars and vans from 2035); new energy efficiency standards for buildings; new targets for renewable energy and land use and forestry, and new requirements for the aviation and maritime shipping sectors.
- BC96. Based on the above, the CSRD requires in its article 29b 2) a) (i) to disclose environmental factors, such as “climate change mitigation, including as regards scope 1, scope 2 and, where relevant, scope 3 greenhouse gas emissions”.
- BC97. From the impact materiality perspective, accounting and disclosing quantitative information on GHG emissions fulfils the purpose of informing users on how the undertaking is progressing towards reducing its GHG emissions in line with its climate targets. This is essential information for external stakeholders and the undertaking itself to monitor – on an ongoing basis – whether the undertaking is on a trajectory towards net zero and, as such, whether it supports the respective EU policy goals. Hence, the CSRD¹⁰ states in Recital 47 that with regard to climate-related information, users are “interested in the level and scope of GHG emissions (...) attributed to the undertaking”.
- BC98. From the financial materiality perspective, users that rely on the ability of the undertaking to create value must be able to obtain a comprehensive understanding of the extent to which GHG emissions throughout an undertaking's value chain affect its risk profile.

⁵ EU's ratification of the Paris Agreement, 2016. Available [here](#).

⁶ Communication from the Commission the European Green Deal (C/2019/640). Available [here](#).

⁷ Amended Proposal for a Regulation COM/2021/563 of the European Parliament and of the Council on establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law). Available [here](#).

⁸ According to the [glossary](#) of the IPCC, net zero CO₂ emissions are achieved when anthropogenic CO₂ emissions are balanced globally by anthropogenic CO₂ removals over a specified period. Net zero CO₂ emissions are also referred to as carbon neutrality.

⁹ Communication from the Commission 'Fit for 55': delivering the EU's 2030 Climate Target on the way to climate neutrality (C/2021/550). Available [here](#).

¹⁰ Proposal for a directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting. Available [here](#).

- BC99. Paragraph 44 was included as a result of the public consultation, in order to clarify the application of the reporting boundary. The requirements under this paragraph are consistent with ESRS 1 requirements for the reporting undertaking and value chain. These requirements are aligned with both the accounting standards requirements for consolidation in the financial statements and the GHG protocol approaches for the consolidation of GHG emissions. In its consolidated financial statements, the reporting (parent) undertaking consolidates its financial statements with those of the entities that it controls (i.e., where it has financial control). Similarly, on the basis of having financial control, the reporting undertaking shall fully consolidate the GHG emissions from the entities that are part of the consolidated accounting group. The full consolidation of GHG emissions from financially controlled entities by the reporting undertaking results in relevant and faithfully represented information (i.e., outcomes from what is financially controlled is reflected as an outcome of a single economic entity).
- BC100. For the GHG emissions from entities (associates, joint ventures and unconsolidated subsidiaries-investment entities) and contractual arrangements that are not within a legal entity (jointly controlled operations) that are part of the reporting undertaking's value chain but are outside the scope of full consolidation in the financial statements, the reporting undertaking shall only apply one of the GHG Protocol consolidation approaches (i.e., the operational control approach) but not the equity share approach (in line with ESRS 1 paragraph 71). As a result, the reporting undertaking fully consolidates the GHG emissions from these entities and contractual arrangements to the extent it has operational control (subject to the provision of ESRS 1 paragraph 71 stating that "the data of the associate or joint venture are (...) taken into account on the basis of the impacts that are directly linked to the undertaking's products and services through its business relationships"). In addition to ensuring relevant and faithfully represented information, this requirement to only allow the operational control approach ensures the comparability of reported Scope 1 and 2 GHG emissions across reporting undertakings.

Scope 1 GHG emissions

- BC101. The objective of this requirement is to provide an understanding of the direct impacts of the undertaking on climate change and the part of its GHG emissions that are regulated under emission trading schemes.
- BC102. The disclosure of Scope 1 GHG emissions is required by the SFDR and recommended by the European Commission Guidelines on reporting climate-related information. It is also aligned with the contents of the [Draft] IFRS S2, SEC proposed rule, TCFD recommendations, GRI Standards and CDP questionnaire.
- BC103. Paragraph 45 (a) allows users to monitor the performance of the undertaking's Scope 1 GHG emissions and to undertake evolution analysis over time.
- BC104. Paragraph AR 41 supports the provision of faithful, comparable, and verifiable information when compiling the information required under paragraph 45 (a), as it establishes consistent rules for the reporting perimeter and calculation method for Scope 1 GHG emissions.
- BC105. Paragraph AR 41 (c) builds on the GHG Protocol, which requires that CO₂ emissions arising from biogenic sources (i.e., biomass combustion) should be reported independently from the "scopes".
- BC106. Paragraph AR 41 (d) requires, in accordance with the GHG Protocol, the disclosure of Scope 1 GHG emissions in gross terms, excluding any purchased, sold or transferred carbon credits or GHG allowances. This is due to two main limits associated with offsets. First, they are a source of greenwashing if they do not fulfil stringent quality criteria, and even by the best standards, there are still uncertainties related to the temporal aspects of nature- and technology-based carbon sequestration, the potential risks of carbon release through deforestation, fire, disease and drought. Second, they can lead to disguising the need for GHG reductions in the undertaking's own operations and value chain and lock-in high-carbon infrastructures. Indeed, offset schemes make it difficult to see the evolution of the actual greenhouse gas emissions over time, and this can give a false impression that climate risks can be easily eliminated.

- BC107. Paragraph 45 (b) is a way to calculate the potential financial effects related to emission trading, which is a prerequisite for understanding the undertaking's transition risks (see Disclosure Requirement E1-9 on potential financial effects of transition risks) and ensures consistency with existing reporting requirements under the EU ETS.
- BC108. Paragraph AR 42 (a) and (c) aim to ensure consistency between the scope and accounting period of Scope 1 GHG emissions disclosed under paragraph 45 (b) and GHG emissions regulated under the ETS.

Scope 2 GHG emissions

- BC109. The objective of this requirement is to provide an understanding of the indirect impacts on climate change caused by the undertaking's consumed energy regardless of whether it is externally purchased or acquired.
- BC110. The disclosure of Scope 2 GHG emissions is required by the SFDR and recommended by the European Commission Guidelines on reporting climate-related information. It also addresses a disclosure objective consistent with the contents of [Draft] IFRS S2, SEC proposed rule, TCFD recommendations, GRI Standards and CDP questionnaire.
- BC111. Paragraph 46 (a) and (b) and the related paragraph AR 43 (d) allow ESRS to be aligned with the GHG Protocol Corporate Standard and Scope 2 Guidance and the GRI 305 (Emissions 2016) that require both location-based and market-based values. Moreover, both approaches have inherent advantages and drawbacks and a choice by the preparer in favour of one or the other could undermine comparability. The location-based method reflects the average emission intensity of the grids from which the electricity is taken. The market-based method reflects the emissions from electricity that companies have chosen (or not) on the market. Contractual instruments used include energy Attribute Certificates (RECs, GOs, I-RECs, ...), direct contracts, supplier-specific emission factor, and emission factors representing energy and emissions not tracked or unclaimed (residual mix).
- BC112. Paragraph AR 43 (a) and (g) acknowledges that the principles and provisions of the GHG Protocol Scope 2 Guidance are widely used by undertakings and are generally accepted.
- BC113. Paragraph AR 43 (b), (e) and (f) supports the provision of faithful, comparable, and verifiable information when compiling the information required under paragraph, as it establishes consistent rules for the reporting perimeter of Scope 2 GHG emissions.
- BC114. Paragraph AR 43 (c) supports the need for consistency in the undertaking's GHG inventory by requiring the avoidance of double counting between Scope 1, 2 and 3 GHG emissions.
- BC115. Paragraph AR 43 (e), in accordance with the GHG protocol, requires the undertaking to disclose biogenic emissions of CO₂ from the combustion or biodegradation of biomass separately from the Scope 2 GHG emissions.
- BC116. Paragraph AR 43 (f) requires the disclosure of Scope 2 GHG emissions in gross terms, excluding any purchased, sold or transferred carbon credits or GHG allowances. This is due to the limits associated with offsets.
- BC117. The requirements under paragraph 47 for the disclosure and disaggregation of Scope 1 and 2 GHG emissions of the reporting undertaking are to allow users to identify, distinguish and compare emissions attributable to the consolidated accounting group (i.e., the parent undertaking and its financially controlled entities) versus those attributable to operationally-controlled entities and contractual arrangements. This disclosure enhances the overall comparability of reported Scope 1 and 2 GHG emissions and it also further aligns the ESRS E1 and IFRS S2 requirements.

Scope 3 GHG emissions

- BC118. The objective of this requirement in the CSRD 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 are an important driver of their transition risks.

- BC119. Accounting and reporting on Scope 3 GHG emissions pose difficulties for preparers because the related GHG emission sources are not under the direct control of the undertaking. However, the 2021 TCFD status report shows that progress in Scope 3 data and methodologies has been made over the last years. Moreover, Scope 3 GHG emissions often account for the bulk of the undertaking's carbon footprint and can create risks for the undertaking's own operations, products and services.
- BC120. The disclosure of Scope 3 GHG emissions is required by the SFDR and recommended by the European Commission Guidelines on reporting climate-related information. It also addresses a disclosure objective that is consistent with the contents of the [Draft] IFRS S2, SEC Proposed rule, TCFD recommendations, GRI Standards and CDP questionnaire. Therefore, the CSRD's "where relevant, scope 3" should be translated by a mandatory disclosure requirement.
- BC121. Paragraph 48 aims to simplify Scope 3 reporting from a practical point of view by prioritizing the most significant scope 3 categories
- BC122. Paragraph AR 44 (a) acknowledges that principles and guidance provided by the GHG Protocol are widely used by undertakings and generally accepted.
- BC123. Paragraph AR 44 (b) considers that the GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting Financial (PCAF) is the most appropriate accounting and reporting framework for financial institutions in line with the recommendations of the European Banking Authority (EBA). PCAF Standard forms an extension to the GHG Protocol Corporate Value Chain which refines and expands the GHG Protocol's accounting rules for Scope 3, category 15 (investments), and replies to the need of FIs to measure the absolute emissions of their loans and investments.
- BC124. Paragraph AR 44 (c) and (d) suggest that not all 15 categories identified in the GHG Protocol have to be part of Scope 3 reporting in order to reach a reasonable cost-benefit balance. It is suggested to refrain from a fixed threshold and rather to follow a criteria-based approach as developed by the GHG Protocol ISO 14064:2018. With regard to the quantitative significance of total Scope 3 emissions, TCFD recommendations refer to a 40% threshold and the SBTi¹¹ states that "if Scope 3 emissions compose over 40% of total Scope 1, 2, and 3 emissions, companies shall develop ambitious Scope 3 targets that collectively cover at least two-thirds Scope 3 emissions".
- BC125. Paragraph AR 44 (e) acknowledges that Scope 3 information is expected to mature over time. Rough estimates are therefore legitimate and acceptable from the start.
- BC126. Paragraph AR 44 (f) allows the undertaking to update the Scope 3 inventory every three years for proportionality reasons, as Scope 3 emissions are often estimates that are based on data that is difficult to collect. However, in order to ensure the faithful representation of the information, it specifies that the inventory shall be updated earlier in the event of substantial changes to the undertaking itself (e.g., through mergers and acquisitions) or its value chain (e.g., through the substitution of a key raw material for production).
- BC127. Paragraph AR 44 (g) aims to encourage the use of the most accurate data by requiring the undertaking to disclose the share of emissions calculated using primary data. The GHG Protocol Scope 3 Standard allows the choice of input data including supplier-specific data, country or sector or product averages, and proxies. However, to increase the accuracy of the data applied, it is recommended to use data in the following order of merit : 1) tier 1 supplier-specific data; 2) an average of country before an average of sector or product; 3) proxies based on spend (nature of purchased goods and services). Moreover, despite GHG Protocol sectoral guidance, more sector-specific definitions are needed to improve the comparability of Scope 3 disclosures.
- BC128. Paragraph AR 44 (h) supports the need for comparability and verifiability of the information by requiring transparency on the reporting scope and calculation methods used when estimating Scope 3 GHG emissions.

¹¹ SBTi, "Corporate Manual", 2021. Available [here](#).

- BC129. Paragraph AR 44 (j), in accordance with the GHG protocol, requires undertakings to disclose biogenic emissions of CO₂ from the combustion or biodegradation of biomass that occur in its value chain separately from the gross Scope 3 GHG emissions.
- BC130. Paragraph AR 44 (k) requires the disclosure of Scope 3 GHG emissions in gross terms, excluding any purchased, sold or transferred carbon credits or GHG allowances, due to the limits associated with offsets.
- BC131. Paragraph AR 48 introduces an optional disclosure of GHG emissions from purchased cloud computing and data centre services because GHG emissions from information and communication technology (ICT) services represent a significantly increasing amount of GHG emissions, and undertakings have direct and concrete levers to act on these sources. Moreover, EFRAG considers that great consideration should be given to the monitoring of ICT-related GHG emissions in the context of high energy prices.

Total GHG emissions

- BC132. The objective of this requirement is to provide an overall understanding of the undertaking's GHG emissions and whether these occur from its own operations or the value chain.
- BC133. The disclosure of total GHG emissions is required by the SFDR and recommended by the European Commission Guidelines on reporting climate-related information. It also addresses a disclosure objective that is consistent with contents of the [Draft] IFRS S2, SEC proposed rule, TCFD recommendations, GRI standards and CDP.
- BC134. Paragraph AR 47 only requires considering the breakdowns by major countries and operating segments. These breakdowns may be relevant information for the assessment of the undertaking's potential transition risks as the transition risks vary depending on the countries in which the GHG emissions occur. This paragraph, regarding the operating segments, is deemed useful since undertakings, especially the larger ones, are often pursuing different economic activities and business models, which can significantly differ in their GHG emissions profile. A disaggregation of GHG emissions by operating segments rather than by economic activities or sectors is recommended because the operating segments correspond to the undertaking's decision-making and are therefore easiest to track down in an undertaking's information system.

GHG intensity based on net revenue

- BC135. The objective of this requirement is to meet the information needs of financial market participants subject to the SFDR. It allows an understanding of the GHG intensity normalised by revenue.
- BC136. The SFDR requires financial market participants to disclose the GHG intensity per revenue of their investee companies. It is, therefore, necessary that undertakings pursuant to the CSRD report that information through the ESRS. Indeed, preparers/investee companies have an insight position (knowledge of GHG emissions and revenues details) allowing to finetune the calculation of the GHG per revenue ratio (adjustment of the perimeter for both numerator on GHG emissions and denominator on revenues) and are better positioned to do this than the financial market participants (investors or analysts) themselves.
- BC137. The usefulness of GHG intensity per revenue is to allow users to compare undertakings from one year to another, normalising GHG emissions by a comparable denominator (potential acquisitions/divestments in assets for instance that could increase/reduce absolute GHG emissions). It also enables comparability between organisations in the same sector.
- BC138. The disclosure of intensity ratios per revenue certainly fosters comparability, but it is, however, not the most relevant and reliable indicator for non-financial sectors.

- BC139. Therefore, three additional intensity indicators deemed relevant for the future sector-specific ESRS are identified, although they are not prioritised for this [Draft] ESRS E1 Standard.
- BC140. GHG intensity per activity (tCO₂e/unit of production) was considered because denominators relying on sectoral production units increase the quality and relevance of information. The disclosure was not retained for this Standard as it is sector specific.
- BC141. GHG intensity per tertiary activities (tCO₂e from offices and business travels per Full-Time Equivalent) was considered. The disclosure aims to address tertiary activities whatever the sector and support EU decarbonisation objectives in accordance with the European Climate Law. However, as the emission sources concerned are limited and therefore less of a priority, and the alignment between the numerator's and denominator's boundaries is difficult to achieve, the disclosure requirement was not retained.
- BC142. GHG intensity of used upstream and downstream logistics services (tCO₂e from goods transported/tons of goods transported) was considered for undertakings that pursue activities in the sectors for which the transportation of goods is relevant. The disclosure aims to address transport activities and support EU decarbonisation objectives in accordance with the European Climate Law. The disclosure was not retained as it was assessed to be sector specific.

Disclosure Requirement E1-7 – GHG removals and GHG mitigation projects financed through carbon credits

- BC143. Most climate scenarios compatible with 1.5°C or 2°C global warming rely on carbon removal solutions, such as Carbon Capture and Storage for Bioenergy (BECCS), Direct Air Capture and Storage (DAC/DACCS) or natural carbon sinks. The IPCC states that “the longer the delay in reducing CO₂ emissions towards zero, the larger the likelihood of exceeding 1.5°C, and the heavier the implied reliance on net negative emissions after mid-century to return warming to 1.5°C (high confidence).”¹² Given the importance of GHG removals to reach global climate goals, it is considered important that undertakings provide transparency on their actions to remove and store GHGs. It is also recognised that for undertakings in biomass-based sectors, such as forestry, a significant part of their impact on climate change is a result of sequestered GHG in their own operations as well as along their value chains.
- BC144. This Disclosure Requirement is derived from Recital 47 of the CSRD which states that users are “interested in the level and scope of GHG emissions and removals attributed to the undertaking, including the extent to which the undertaking uses offsets and the source of those offsets”.
- BC145. This Disclosure Requirement requires the undertaking to report GHG removals in its own operations separate from those in its value chain and separate from the GHG emissions (Disclosure Requirements E1-6). This will help avoid double counting and provide transparency on the undertaking’s direct and indirect efforts to remove and store GHGs. Since it may be challenging for an undertaking to account for all GHG removals in its value chain, the Application Requirements for Disclosure Requirement E1-7 clarify that GHG removal activities in the value chain shall only include those that the undertaking is actively supporting, for example through a cooperation project with a supplier. GHG removals supported by an undertaking outside its value chain, for example by financing afforestation or technological removal projects, should be considered as GHG mitigation projects financed through carbon credits if they are subject to a carbon credit the undertaking has purchased and cancelled in the reporting period. On the other hand, if the undertaking purchases carbon credits from GHG removal projects within its value chain, sometimes referred to as “insets”, it should account for these removals under removal, but only if the transparency and quality criteria for carbon credits are met.

¹² Rogelj, J. et al. (2018, p. 93): Mitigation Pathways Compatible with 1.5°C in the Context of Sustainable Development. In: Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty: https://www.ipcc.ch/site/assets/uploads/sites/2/2019/05/SR15_Chapter2_Low_Res.pdf

- BC146. The [Draft] ESRS E1 recognises that to date there are no comprehensive consensus methods for accounting and reporting on GHG removals and storage. For this reason, Disclosure Requirement E1-7 aims to provide the necessary transparency on the assumptions made and methodologies and frameworks applied by the undertaking in accounting for GHG removals (cf. paragraph 55 (b)). More advanced methods for accounting of GHG removals are currently being developed, notably the planned EU regulatory framework for certification of carbon removals, but also the Land Sector and Removals Guidance under the auspices of the GHG Protocol, and the Forest, Land and Agriculture Science-Based Target Setting Guidance by the SBTi. To take account of these developments, the [Draft] Standard includes a dynamic requirement to apply consensus methods as soon as they are available.
- BC147. GHGs can be removed and stored by biogenic (e.g., afforestation, reforestation, forest restoration, urban tree planting, agroforestry, building soil carbon, etc.), technological (e.g., direct air capture and storage), or hybrid (e.g., bioenergy with CO₂ capture and storage) solutions. All of these face distinct challenges related to, for example, adverse environmental and social impacts (known and accepted, unintended or uncertain), the risks of non-permanence in the storage of removed GHGs, the maturity of the technology and its potential to be applied in large scale, etc. Because of these challenges, the [Draft] ESRS E1 requires undertakings to provide details for each removal activity, including the type of removal, the GHGs concerned, how the risk of non-permanence is managed, rules for accounting of reversals and, if the removal activity qualifies as a nature-based solution. Nature-based solutions are considered a means to circumvent various challenges connected to biogenic removals, provide additional benefits for sustainable development, and should therefore be identified as such. The United Nations Environment Assembly has recently agreed on a definition of nature-based solutions, which is referenced in the [Draft] ESRS E1. In developing this [Draft] Standard, however, it was noted that more specific criteria to qualify an action as a nature-based solution may be necessary to ensure robust reporting.
- BC148. The objective of the disclosure requirement on GHG mitigation projects 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.
- BC149. The disclosure builds on Recital 47 of the CSRD, which stresses that “achieving a climate-neutral economy requires the alignment of GHG accounting and off-setting standards” and that “users need reliable information regarding off-sets that addresses concerns regarding possible double counting and overestimations, given the risks to the achievement of climate-related targets that double-counting and overestimations can create”. It concludes that “the reporting standards should therefore specify the information undertakings should report with regard to those matters”.

- BC150. Since it is not possible for most undertakings to eliminate all GHG emissions associated with their activities, products and services right away, an increasing number of undertakings use carbon credits from GHG reduction or removal projects with the aim to balance or compensate their GHG emissions or claim “carbon neutrality”. However, this trend in market practice is observed with caution as carbon credits and offsetting practices are limited in their effectiveness in many ways. First, they can be a source of greenwashing if the climate change mitigation project behind a carbon credit does not fulfil the stringent and verified quality criteria. Secondly, offsetting practices can lead to disguising the need for deep GHG emission reductions in the undertaking’s own operations and value chain to achieve EU and global climate goals and avoid a lock-in in high-carbon infrastructures (also known as mitigation deterrence). Thirdly, GHG emissions by far exceed the amount of carbon credits potentially available. Hence, the concept of purchasing carbon credits to offset emissions cannot be considered as a viable solution on a large scale. Fourth, double counting of mitigation outcomes (towards national or EU climate targets and at the same time towards an undertakings’ GHG neutrality claim) may lead to less overall climate action and can therefore be perceived as a risk for environmental integrity. Overall, in developing this [Draft] Standard it has been noted that undertakings should prioritise GHG emission reduction over offsetting and compensation practices. This principle is reflected throughout the [Draft] Standard. Disclosure Requirement E1-4 does require reporting of GHG emission reduction targets and the progress made to achieve them but excludes the use of carbon credits to claim target achievement. Disclosure Requirement E1-6 requires reporting on gross Scope 1, 2, 3 and total GHG emissions and do not allow netting of emissions with carbon credits. Nevertheless, it is recognised that the purchase and use of carbon credits have become common market practice and reporting standards should create the necessary transparency on, if and to which extent the undertaking’s climate-related policies rely on carbon credits and offsetting and whether the carbon credits purchased and cancelled by the undertaking fulfil certain quality criteria. This approach is in line with GRI 305-5 (Emissions 2016) and the GHG protocol corporate standard and Scope 3 standard.
- BC151. Carbon credits can originate from GHG emissions reduction or removal projects that occur inside or outside the undertaking’s value chain. To avoid double reporting of GHG emission reductions and GHG removals and to ensure consistency of an undertaking’s GHG inventory boundaries, this disclosure should not include amounts of emission reductions and removals associated with purchased carbon credits that occur within an undertaking’s value chain (sometimes referred to as insets). In case the carbon credit is based on a GHG emission reduction in the undertaking’s value chain, this emission reduction should be considered in Disclosure Requirement E1-6 (Scope 3). In case the carbon credit is based on a GHG removal in the undertaking’s value chain, it should be considered as removal.
- BC152. This Disclosure Requirement limits the carbon credits that can be considered to those that are verified against recognised national or international quality standards. It is observed that various verification standards for climate change mitigation projects exist on the voluntary market, but there is no commonly agreed definition of a high-quality verification standard. The [Draft] ESRS E1, therefore, introduces a definition of “recognised quality standards for carbon credits” (Appendix A) which is based on a set of criteria that should be fulfilled by those standards, including that the standard is verifiable by independent third parties, the standard setter makes requirements and project reports publicly available and the standard at a minimum ensures additionality, permanence, avoidance of double counting and provides rules for calculation, monitoring, and verification of the climate change mitigation project’s GHG emissions and emission reductions. With this approach, standard setters for carbon credits schemes should be able to assess if their standards are viable for reporting under ESRS E1. Vice versa, standards and carbon credits that do not fulfil the quality criteria listed in the definition would not be able to be considered under the Disclosure Requirement.

- BC153. This disclosure requires the reporting of the total amount of carbon credits in metric tons of CO₂eq cancelled (or retired) in the reporting period. This may be different from the amount of carbon credits an undertaking purchases in the same period. Some undertakings buy carbon credits in bulk in order to use them for offsetting over different reporting periods. To ensure faithful and comparable reporting, it is considered that the undertaking should only account for those carbon credits it cancels in the reporting period.
- BC154. In addition to the total amount of GHG reductions or removals, the [Draft] ESRS E1 requires details on the type and nature of the carbon credits and related climate change mitigation projects. This includes the share of reduction and removal projects, the share by quality standard, the share from climate change mitigation projects in the EU and, if applicable, the share of carbon credits that qualify as corresponding adjustments under Art. 6 of the Paris Agreement. These details are considered necessary to allow users to understand the credibility of the disclosed information. In preparing this [Draft] Standard it was noted that based on Art. 6 of the Paris Agreement, the rules for the voluntary market for carbon credits are currently under revision, especially with regards to preventing double counting of emission reduction in national inventories and the voluntary market. The [Draft] ESRS E1 anticipates the changes to the greatest extent possible to date, by including a requirement to provide transparency on the share of carbon credits that qualify as a corresponding adjustment under the Paris Agreement.
- BC155. Paragraphs 57 and 58, which require transparency related to targets that intend to achieve net-zero GHG emissions by a certain year (paragraph 57) and GHG neutrality claims undertakings may wish to disclose and that involve the use of carbon credits (paragraph 58) were introduced to the [Draft] Standard in order to avoid greenwashing on net-zero and GHG neutrality claims. These 2 types of target were moved from E1-4 to E1-7 to clarify that they come in addition to GHG emission reduction targets and are only based on the use of removals (net zero) and carbon credits (neutrality claims). It is important to note that GHG emission reduction targets do not include any type of netting or offsetting of an undertaking's Scope 1, 2 or 3 emissions. Especially GHG neutrality claims should not disguise the need for deep GHG reductions in the undertaking's own operations and value chain and for addressing potential lock-ins in high-carbon infrastructures.
- BC156. Paragraphs 57 and 58 acknowledge that an increasing number of undertakings commit themselves to reaching net-zero GHG emissions or are claiming climate or GHG neutrality. In preparing this [Draft] Standard, it was considered that there is no consensus on the definition and methodologies for net-zero and GHG neutrality at an enterprise level, and international debates are ongoing (e.g., under the UNFCCC Race to zero, a new UN high-level expert group on net-zero commitments, the SBTi, CDP or the work on ISO 14068 "Carbon neutrality"). The SBTi's Net-zero standard issued in late 2021 can be considered the most mature approach to date for setting short- and long-term GHG emission reduction targets in line with a 1.5°C scenario that will eventually lead to net-zero emissions on the enterprise level. To reach net-zero, the SBTi net-zero standard suggests that an undertaking must achieve its long-term emission reduction target, i.e. reducing its GHG emissions by at least 90%, and neutralising the unavoidable, residual emissions by means GHG removals. This is in contrast to frequently perceived market practice where undertakings claim GHG neutrality for a certain reporting year based on the use of carbon credits to offset or compensate their GHG emissions in the respective year. Therefore, this [Draft] Standard has been prepared on the assumption that the disclosure requirements should differentiate between net-zero targets, based on the understanding of the SBTi net-zero standard (paragraph 57), and other GHG neutrality claims that involve the use of carbon credits and offsetting (paragraph 58). In both cases, however, the aim of the [Draft] ESRS E1 is to create transparency on what is behind "net-zero" and "GHG neutrality" to avoid greenwashing and misleading users.
- BC157. In the preparatory work leading to the development of this [Draft] Standard, it was considered that further guidelines on sector carbon budgets, related emissions scenarios and allocation approaches at European level would be helpful for the undertaking to set and disclose net-zero targets. However, this [Draft] Standard does not include guidelines for the development of such budgets, scenarios and approaches as this was considered out of scope of the work of the EFRAG PTF.

BC158. This Disclosure Requirement was simplified to meet the public consultation expectations regarding proportionate disclosure requirements, as removals and carbon credits are secondary requirements compared to GHG emissions and should not be more detailed. Also, net-zero targets and climate neutrality claims were moved from the disclosure requirement on targets to avoid greenwashing and clearly state that these claims are only related to removals and carbon credits. Representatives of civil society suggested to delete this Disclosure Requirement, but it was decided it was better to standardize than to leave out.

Disclosure Requirement E1-8 – Internal carbon pricing

BC159. The objective of Disclosure Requirement E1-8 is to provide an understanding of how climate-related impacts, risks and opportunities are integrated into the undertaking's strategic and operational decision-making processes. Internal carbon prices are considered a useful tool in this regard which can incentivise reduction of GHG emissions and support the assessment, anticipation and management of climate-related transition risks and opportunities.

BC160. This disclosure requirement relies on the European Commission Guidelines, which recommend reporting on how internal carbon pricing is used for climate risk management actions such as mitigation, transfer or adaptation. It also addresses a disclosure objective consistent with the TCFD final report recommendations, [Draft] IFRS S2 and CDP 2021 questionnaire, which propose the entity to disclose a metric on its internal carbon prices.

BC161. Paragraph 60 (a) is considered relevant information for users to understand for which purposes the undertaking uses internal carbon prices, such as informing investment decisions (e.g., R&D, operating assets, business acquisitions), valuation of potential future liabilities (e.g., from EU ETS quotas to be purchased, from future reliance on carbon credits, etc.) or as an input to financial estimates and scenarios (e.g., impairment tests, fair value measurement, growth scenarios).

BC162. Paragraph 60 (b) supports the provision of faithful information and comparability across undertakings by requiring the disclosure of the scope of application of carbon pricing schemes.

BC163. Paragraphs 60 (c) and (d) allow users to understand which internal carbon prices the undertaking applies, why they are considered useful, how they were determined, and which amounts of GHG emissions have been covered by the respective scheme in the reporting year. This information will allow users to understand the purpose and incentivising character of the internal carbon prices applied by the undertaking and will increase the credibility of the disclosure.

BC164. Paragraph AR 63 is considered relevant information for users to understand the consistency between the undertaking's internal carbon prices and those used in financial statements and financial planning, such as through impairment and fair value.

BC165. This Disclosure Requirement was originally considered as an application requirement related to ESRS 2 (GOV), but it was moved to main body to be closer to the IFRS S2 organization of content under its Metrics and Targets section, and as a response to changes in ESRS 2 that limit incentives to remuneration schemes. This location also responds to the decision of ensuring that all disclosure requirements are embedded in the main part of the standards while requirements and recommendations on determination and presentation to foster consistency are accommodated by Appendix B of the standards.

Disclosure Requirement E1-9 – Potential financial effects from material physical and transition risks and potential climate-related opportunities

BC166. Climate change may affect the undertaking's financial performance, financial position and cash flows.

- BC167. The objective of this Disclosure Requirement is to provide a quantitative or qualitative estimation of the potential financial effects arising from material climate-related risks beyond what has already been recognised under financial reporting requirements. The material climate-related risks to which the undertaking is exposed are those resulting from the process described in ESRS 2 Disclosure Requirement IRO-1. It is considered relevant information for users to enable effective pricing of climate-related risks and opportunities, and informed assessments of enterprise value and resilient business model, and to facilitate the efficient allocation of capital.
- BC168. This Disclosure Requirement builds on the existing NFRD, which states that climate-related information should include both the principal risks to the development, performance and position of the company resulting from climate change, and the principal risks of a negative impact on the climate resulting from the company's activities. It is also aligned with the European Commission Guidelines on non-financial reporting, which recommend the undertaking to disclose the financial impacts of extreme weather events (i.e., possible indicators on days of business interruptions and associated costs, cost of repairs, fixed-asset impairment, value chain disruptions and lost revenues) and to describe how the undertaking's performance is affected by weather variability, in particular for undertakings sensitive to variability in temperature and precipitation.
- BC169. The Disclosure Requirement E1-9 also addresses disclosure objectives that are consistent with the [Draft] IFRS S2 and TCFD recommendations, which also propose the disclosure of the amount and percentage of assets and business activities vulnerable to physical and transition risks without stipulating the methodology for doing this.
- BC170. The subtopic is considered material from the financial materiality lens as both climate-related physical and transition risks may affect the undertaking's value over the short-, medium- and long-term.
- BC171. This Disclosure Requirement does not cover financial effects that have already crystallised as a result of climate-related risks as these should already have been reflected in the financial statements under the requirements of financial reporting and ESRS 2. It only covers potential effects that may occur in the future due to climate-related risks and do not meet the recognition and measurement requirements for inclusion in the financial statements at the reporting date.
- BC172. No commonly agreed methodology exists to assess the quantitative potential financial effects of climate-related risks. Under these circumstances, the disclosure of the quantified potential financial effects from material climate-related risks are proposed without a requirement on the quantification methodology. Nonetheless, the undertaking is required to ensure it applies the most mature and accurate methodologies available in its specific field for measuring the quantitative potential financial effects of its physical and transition risks and to disclose its assumptions and the limitations of these assumptions. Climate-related scenario analysis is considered a central tool for understanding potential financial effects (see sections "Disclosure Requirement related to ESRS 2 IRO-1" on materiality assessment and "Disclosure Requirement related to ESRS 2 SBM-3" on resilience of the strategy and business model for more information on scenario analysis).
- BC173. Given the lack of agreed methodology to quantify potential financial effects from material climate-related risks, in developing this [Draft] Standard it was considered that the disclosure of potential net financial effects after mitigation cannot be requested as a mandatory disclosure requirement. The disclosure requirement is thus voluntarily limited to the potential financial effect before mitigation.
- BC174. Based on the 2021 TCFD status report, challenges associated with the reporting of potential financial effects from climate-related risks include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks compared with business horizons; and securing approval to disclose the results publicly.

- BC175. Future enhancement of the ESRS may rely on standardised methodologies and more specifically on a potential classification of significant harmful activities, as described in the Public Consultation Report on Taxonomy extension options linked to environmental objectives¹³. The proposed framework of a potential EU Taxonomy extension could be a building block for standardised risk quantification through common definitions and science-based technical criteria. Another possibility would be to explore how the indicators relevant to the 'do no significant harm-DNSH' criteria of current EU Taxonomy regulation could be made coherent with other indicators within the overall sustainable finance framework for improved usability in assessing the potential financial effects of climate-related risks.
- BC176. In order to better align with the [Draft] IFRS S2 distinction of current/past financial effects versus anticipated financial effects, it has been clarified under paragraph 62 that potential financial effects information is outside the scope of accounting requirements and that this disclosure is in addition to the one of current/past financial effects of climate-related risks and opportunities required under ESRS 2 SBM-3. Initially this Disclosure Requirement was considered as three separate ones, but it was decided to merge into one in order to keep the balance with the Disclosure Requirement on GHG emissions and considering this Disclosure Requirement is less mature and important than GHG emissions.
- BC177. As a result of the public consultation, E1-9 allows a one-year deferral of adoption, and three years of qualitative information instead of quantitative information on potential financial effects of material physical and transition risks. This was asked by several stakeholders, including preparers and professional associations, due to the immaturity of reporting, as well as data and methodology challenges faced by several undertakings.

Potential financial effects from material physical risks

- BC178. The objective of this requirement is to provide an understanding of how material climate-related physical risks may affect the undertaking's financial position (owned assets) and performance (potential future increase/decrease in net turnover and costs due to business interruptions, increased supply prices, etc. resulting in potential margin erosions) over the short, medium and long term considering that these potential future financial effects may not meet the financial reporting recognition and measurement criteria set for assets and liabilities at the reporting date.
- BC179. Several methodologies and tools are already developed and used on the market worldwide. The approach is usually based on two steps: physical risks exposure (disclosed under "Disclosure Requirement related to ESRS 2 IRO-1" on materiality assessment) and financial effects assessment developed under this Disclosure Requirement E1-9. The most advanced methodologies recommend modelling IPCC scenarios with the geographical location of assets and supply chain and customers' countries on various time horizons. Thus, the use of models allows the undertaking to first identify the climate-related hazards such as heat and cold waves, number of frost days per year, heavy precipitations, wind intensity change, etc. and then the owned assets that are subject to these climate-related hazards and the business activities exposed to physical risks along the value chain.
- BC180. Paragraph AR 68 supports the need for understandability, verifiability, and comparability despite the lack of mature methodology for assessing the quantitative potential financial effects by providing transparency on the scope, time horizon, calculation methodology, critical assumptions, and limitations of the undertaking's assessment.
- BC181. Considering the level of uncertainty regarding both physical risks and the related financial effects on a specific undertaking, paragraph AR 69 (a) allows the undertaking to disclose the potential financial effects as a range and transitional provisions in ESRS 1 allow for qualitative information during the first 3 years of application.

¹³ Platform on Sustainable Finance, "Public Consultation Report on Taxonomy extension options linked to environmental objectives", July 2021. Available [here](#).

- BC182. Paragraphs 63 (b) and AR 69 (d) are provided on the basis that potential financial effects from material climate-related physical risks also depend on the undertaking's planned responses to manage its risks (i.e., accept, avoid, reduce or share/transfer). Without trying to assess the efficiency of the actual and planned mitigation actions, these paragraphs aim at highlighting the relevance and coverage of the actions. Moreover, these paragraphs aim to increase the consistency and reliability of the undertaking's disclosure by requiring that the potential financial effects disclosed under Disclosure Requirement E1-9 shall reflect and be read in parallel with the action plans to adapt to physical risks and resources dedicated to adaptation solutions disclosed under Disclosure Requirement E1-3.
- BC183. Paragraphs 63 (a) and 63 (c) were included to be consistent with the requirements in EBA Pillar 3 ITS. This last one was also supported by user respondents.
- BC184. Paragraphs 65 (a) and AR 76 to AR 78 aim to strengthen the consistency of sustainability-related financial disclosure requirements with financial reporting. Initially it was considered to require a statement of consistency of data and assumptions; however, this has been simplified requiring the entity to ensure consistency and to only disclose inconsistencies (AR 77).

Potential financial effects from material transition risks

- BC185. The objective of this requirement is to provide an understanding of how material climate-related transition risks may affect the undertaking's financial performance and position over the short-, medium- and long-term, considering that those potential future financial effects may not meet the financial reporting recognition and measurement requirements for inclusion in the financial statements at the reporting date.
- BC186. Currently, no commonly agreed methodology exists to assess or measure how climate-related transition risks may affect the future financial position and performance of the undertaking. It is recognised that methodologies are highly dependent on the business model of the undertaking itself, on carbon pricing policies and mechanisms, on a common definition of assets at risk, and a common definition of significantly harmful activities.
- BC187. It is quite clear from the perspective of the EBA (European Banking Authority) and NGFS (Network of Central Banks and Supervisors for Greening the Financial System) that the methodologies used by financial institutions to assess transition risks stemming from climate factors still need to be improved. Thus, at this stage, financial institutions can only rely on qualitative assessments of the risk management process of their counterparties/investees as well as on quantitative metrics used by their counterparties/investees to manage and monitor their climate-related risks and opportunities. Therefore, the disclosures required by paragraphs 61 (b) and 64 remain largely based on the exercise of judgement.
- BC188. Paragraph AR 71 supports the need for understandability, verifiability, and comparability of the quantitative potential financial effects despite the lack of mature methodology by providing transparency on the scope, time horizon, calculation methodology, critical assumptions, and limitations of the undertaking's assessment.
- BC189. Paragraph AR 72 (a) builds on the NGFS¹⁴, which underlines the predominant role of stranded assets in transmitting the transition financial impact from corporates to financial institutions. The disclosure of value and share of stranded assets is considered by the EBA as the starting point of the valuation of exposure of assets impacted by transition risks. The estimation of stranded assets should be addressed in a forward-looking perspective with the following disclosure on scope and methodology according to the IEA:
- (a) scope: physical assets whose costs cannot be recovered with important stranding risks in the long-lived power generation plants,

¹⁴ NGFS, "Overview of Environmental Risk Analysis by Financial Institutions", 2020. Available [here](#).

- (b) methodology and especially the period considered over which foregone revenues are taken into account (this period must be longer than usual period considered in accounting standard for assets depletion);
- (c) key assumptions: future prices, underlying scientific scenario, policy framework facilitating the transition, etc.; and
- (d) value: book value.

This Disclosure Requirement of potentially stranded assets builds on the concept of locked-in GHG emissions developed under paragraph 15 (d) of Disclosure Requirement E1-1. Significance of locked-in GHG emissions associated with specific assets should help identify the ones that might become stranded in the future in case they are incompatible with a transition to a climate-neutral economy.

- BC190. Paragraph AR 73 acknowledges that public policies aiming to apply the polluter-pays-principle, by shifting the costs induced by GHG emissions from society to the emitters of greenhouse gases are a main driver of climate-related transition risks. Carbon pricing policies primarily manifest in two ways: the emissions trading scheme and the carbon tax. The World Bank indicates that carbon pricing policies currently exist in 42 countries at the national level and 25 areas at the subnational level – numbers that have almost doubled since 2012. The EU ETS is considered a primary policy underpinning the EU's goal of reducing emissions by at least 55% by 2030.
- BC191. Paragraph AR 73 (e) introduces the concept of monetised GHG emissions, which allows users to understand the potential extent of financial effects associated with the undertaking's direct and indirect GHG emissions. It builds on recital 44 of the CSRD, which states that "some natural capital accounting methodologies seek to assign a monetary value to the environmental impacts of companies' activities, which may help users of sustainability information to better understand those impacts", consequently "it is therefore appropriate that sustainability reporting standards should be able to include monetised indicators of sustainability impacts if that is deemed necessary". Moreover, it is aligned with the WEF paper on stakeholder capitalism, which includes the "valued impact of GHG emissions" and "estimated societal cost of carbon" as expanded metrics.
- BC192. This paragraph acknowledges that policymakers can base their climate policies on carbon prices and other instruments, where the GHG emission reductions to be achieved through carbon pricing determine the price level, ranging from partial to complete internalisation of the costs induced by emitters. Thus, using different cost rates in the monetisation of GHG emissions – i.e., low, middle, high – enables to reflect different policy options and resulting transition risks arising from carbon prices.
- BC193. In order to reach a faithful and comparable monetisation of GHG emissions, the range of carbon prices should be predefined and uniformly applied by all the undertakings. However, given that these cost rates are not yet readily available and would need to be determined at the EU level, this disclosure is introduced on an optional basis until the future enhancement of the ESRS.
- BC194. Paragraph 64 (c) was included to be consistent with the requirements in EBA Pillar 3 ITS, template 2: Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral.
- BC195. Paragraphs 65 (b) and AR 76 to AR 78 aim to strengthen the consistency of sustainability-related financial disclosure requirements with financial reporting.

Potential financial effects from climate-related opportunities

- BC196. The objective of this requirement is to allow users to understand how the undertaking may financially benefit from material climate-related opportunities. The disclosure is complementary to the information requested under the Taxonomy Regulation.
- BC197. This requirement builds on the [Draft] IFRS S2 and TCFD recommendations, which propose the disclosure of the amount and percentage of assets or business activities aligned with climate-related opportunities.

- BC198. The disclosure is structured according to two categories of climate-related opportunities – (i) expected cost savings with regards to climate change mitigation and adaptation actions; and (ii) potential market size – in order to support the provision of granular, accurate and comparable information.
- BC199. Paragraph 66 (a) should be read in conjunction with the information disclosed under the provisions of the Taxonomy Regulation. It should help users put into perspective the green turnover ratio of the current Taxonomy Regulation in comparison with the potential of the market for low-carbon or adaptation products and services.
- BC200. The definition of low-carbon products and services is expected to be specified in the future enhancement of the ESRS. One option would be to define them according to their contribution to life-cycle GHG emissions savings in comparison with alternative products. Another possibility would be to define criteria for green products and services and to monitor the development of these portfolios.

Disclosure Requirements not included

Optional Disclosure Requirement E1-14 – Avoided GHG emissions from products and services

- BC201. Initially a Disclosure Requirement was considered to disclose avoided GHG emissions from products and services. However, it was deleted as a result of the public consultation as there is not a generally accepted methodology, which could lead to greenwashing. It was also considered that a Disclosure Requirement on this topic could be more relevant for specific sectors.



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