

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

ESRS E3

Water and marine resources

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 the Exposure Draft ESRS E3 *Water and marine resources*. 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 (subject to the materiality assessment according to ESRS 1 *General requirements*) in order to report under a double materiality perspective. It covers in particular:
- (a) the impacts (how the entity impacts water and marine resources);
 - (b) the actions and their results;
 - (c) the material risks and opportunities arising from the undertaking's impacts and dependencies; 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 affect the undertaking's cash flows, performance, position, development, cost of capital or access to finance.

Context and reference table

Approach to drafting the standard

- BC2. The approach to drafting this standard has been described in the cover note of the consultation documents.
- BC3. The drafting process considered the following elements as a rationale for choosing disclosure requirements:
- (a) Water is a local impact. The EU's approach to managing the quality and availability of water, and associated risks, is based on a river basin approach / body of water approach / catchment approach. This should be reflected in the disclosures.
 - (b) Water issues can be grouped in two main categories: either water quantity issues (too little water available, or too much – floods) or water quality issues (chemical, physical and ecological status). There are legal references or international references which enable to define these notions, upon which disclosures can be based.
 - (c) Water consumption, water storage, water use, water withdrawals and water discharge are the key concepts used to quantify inflows and outflows of water and understand water balance. Water consumption equals to water withdrawals minus water discharges.
 - (d) Pressures on marine resources originate from issues related to the management of waste, pollution, the circular economy, biodiversity, freshwater, habitat conservation which are also covered by other standards. The whole value chain (including supply chain, operations, products and services sold and used) should be considered for the identification of material issues, in a double materiality perspective.
 - (e) Undertakings should provide information on how they have identified material issues related to water and marine resources and on the policies, targets, action plans and resources they dedicate to tackling these issues, and on the progress they are making, through the disclosure of performance indicators.
 - (f) Undertakings should provide information which can be a basis for inter-firm comparison, beyond open ended narrative-based disclosures.
- BC4. Besides, all environmental objectives are interrelated as reminded in the Platform on Sustainable Finance's report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU Taxonomy. The provisions of ESRS E3 are to be read in conjunction with other environmental standards.

General context

- BC5. According to the European Environment Agency's State of the Environment Report for 2020, in a context of increasing pressures on the environment, the world population is projected to reach 10 billion by 2050, with water demand set to increase by 55%. The ability of nature to maintain clean water is likely to be disrupted and since Europe depends on resources extracted in the rest of the world, many impacts associated with European production and consumption occur outside of Europe. According to this report, for the past 10-15 years, trends and developments in the quality of water ecosystems and wetland has been mixed and so are outlooks to 2030. The process of meeting policy objectives and targets is largely not on track. The same assessment applies to pollution pressures and links to human health. If water quality has improved, the EU has by far not achieved a good ecological and chemical status for all water bodies by 2020. Only 40% of bodies of water have achieved good ecological quality status and 38% good chemical quality status, and modest progress has been made on reducing emissions of pollutants to water. Wetlands are widely degraded and so are 80 to 90% of floodplains. Point source pollution has been reduced but 18% of reported water surface bodies and 14% of reported groundwater bodies are under the significant pressure of point sources. Nitrogen surpluses have been reduced but diffuse pollution and hydromorphological changes are affecting the state of freshwater. Despite these trends, the quality of drinking water and bathing water remains high across Europe (95% of bathing waters). Also, EU water abstraction has decreased by 19% between 1994 and 2015, and 89% of bodies of water have achieved good quantitative status. However, overall, addressing the impact of some sectors has not been successful, as illustrated by agriculture's continued impacts on biodiversity, pollution of water and soil, and the energy sector's continued impact through hydromorphological changes.
- BC6. As regards marine environments at a global level, 40% of marine environments are now severely altered. If the trends for creating marine protected areas have been good for the past 10-15 years, the outlook to 2030 is more mixed. A similar analysis can be made for pressures and impacts on marine habitats with 65% of protected seabed habitats considered to be in unfavourable conservation status, and only 55% of coastal areas having reached good ecological quality of water status. There are however sharp differences between different European regions. Across 397 stocks reported on by the State of the Environment Report, most of them were still overexploited, with the abundance of sensitive species decreasing by 69% in heavily trawled areas.

Global and EU Water Goals

- BC7. The global and EU policy goals that were identified for water are the following:
- (a) achieve universal and equitable access to safe and affordable drinking water for all (SDG 6, EU Drinking Water Directive);
 - (b) achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations (SDG 6);
 - (c) protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes (and contribute to the restoration of at least 25 000 km of free-flowing rivers) (EU Water directive, EU Biodiversity Strategy);
 - (d) expand international cooperation and capacity-building support to developing countries in water- and sanitation-related activities and programmes, including water (SDG 6);
 - (e) support and strengthen the participation of local communities in improving water and sanitation management (SDG 6); and
 - (f) assess and manage flood risks, aiming to reduce the adverse consequences for human health, environment and cultural heritage (EU Floods directive).

Global and EU goals for Marine Resources

- BC8. The global and EU policy goals that were identified for marine resources are described below:
- (a) sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts by¹:
 - i. protecting and restoring marine ecosystems and the services they provide;
 - ii. reducing - including underwater - noise at a level that does not adversely affect the marine environment;
 - iii. keeping the level of non-indigenous introduced species below a level that adversely affects the ecosystems;
 - iv. keeping populations of all commercially exploited fish and shellfish within safe biological limits;
 - v. eliminating by-catch of species or reducing it to a level that allows species recovery and conservation;
 - vi. substantially reducing any negative impacts on sensitive species and habitats, including on the seabed, through fishing and extraction activities;
 - (b) minimize and address the impacts of ocean acidification, including through enhanced scientific cooperation at all levels (SDG 14);
 - (c) effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics (SDG 14);
 - (d) conserve at least 10 per cent of coastal and marine areas, consistent with national and international law and based on the best available scientific information (SDG 14);
 - (e) prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation (SDG 14);
 - (f) increase the economic benefits to Small Island developing States and least developed countries from the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture and tourism (SDG 14);
 - (g) increase scientific knowledge, develop research capacity and transfer marine technology in order to:
 - i. improve ocean health;
 - ii. enhance the contribution of marine biodiversity to the development of developing countries, in particular small island developing States and least developed countries by:
 - 1. setting up international funds for research;
 - 2. collecting, managing and sharing data;
 - (h) provide access for small-scale artisanal fishers to marine resources and markets (SDG 14); and

¹ (SDG 14, EU Marine Strategy Framework Directive, EU Biodiversity Strategy; EU Common Fishery Policy

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- (i) enhance the conservation and sustainable use of oceans and their resources by implementing international law as reflected by UNCLOS and EU Marine Strategy Framework Directive, which provide the legal framework for the conservation and sustainable use of oceans and their resources.

BC9. To comply with the requirements of CSRD, EU legislative framework and current international frameworks were taken into account and the following frameworks emerged as most relevant:

- (a) GRI 303
- (b) CoP questionnaire
- (c) CDP Water questionnaire
- (d) CEO Water mandate
- (e) Alliance for Water Stewardship
- (f) UNGC Communication on Progress
- (g) CDSB Application guidance
- (h) SPOTT indicator framework
- (i) Joint publication of the WWF and the German Environment Agency
- (j) WBCSD's "Right tools for the job"
- (k) Future Fit Benchmark

Disclosure Requirements	European framework references	SFDR PAI	International Framework references
DR E3-1 – Policies implemented to manage water and marine resources	CSRD Art.5 / 6 SFDR indicators on "Investments in companies without water management policies"/ "Exposure to areas of high-water stress" Annex II of the EMAS Regulation	SFDR indicators: - Indicator n. 7 Table #2 of Annex 1 - Indicator n.8 Table 2 of Annex 1 - Indicator n. 12 Table #2 of Annex 1	GRI 3 Disclosure 3-3 / 303-1 GRI 2 'General disclosures' SDG 6 / 14 CoP questionnaire CDP Water questionnaire CEO Water mandate Alliance for Water Stewardship UNGC Communication on Progress
DR E3-2 – Measurable targets for water and marine resources	CSRD Art.19a (2) / b EMAS Regulation		GRI 3 on "Material topics" / 303-1-d / 3-3-e CDP Water questionnaire CDSB Application guidance CoP questionnaire CEO Water mandate Alliance for Water Stewardship UNGC Communication on Progress SPOTT indicator framework
DR E3-3 – Water and marine	CSRD Art.19a (2) / e		GRI 3 on "Material topics"

Disclosure Requirements	European framework references	SFDR PAI	International Framework references
resources action plans and resources	Annex II of the EMAS Regulation		CDP Water questionnaire CEO Water mandate Alliance for Water Stewardship Joint publication of the WWF and the German Environment Agency WBCSD's "Right tools for the job"
DR E3-4 – Water consumption	CSRD Art.19a (2) / g Annex IV of the EMAS Regulation [Annex IV, C. 2. (iii)]	SFDR Indicator: - n. 6.1 Table #2 of Annex 1 - n. 6.2 Table #2 of Annex 1	GRI Disclosures 303-5 CDSB Framework application guidance for water related disclosures CEO Water mandate CoP frameworks CDP water questionnaire Alliance for Water Stewardship UNGC Communication on Progress Future Fit Benchmark

Disclosure Requirements

ESRS 2 General disclosures

Impact, risk and opportunity management

Disclosure Requirement related to [draft] ESRS 2 IRO-1 – Description of the processes to identify and assess material water and marine resources-related impacts, risks and opportunities

- BC10. The [Draft] Standard contains specific water and marine resources-related disclosure requirement that the undertaking shall follow when disclosing information under ESRS 2, in particular with regards to ESRS 2-IRO 1 on the process to identify water and marine resources-related impacts, risks and opportunities and the outcome of this process.
- BC11. Due to their activities and business relationship most undertakings contribute – to varying extents – to water/marine resources-related impacts. In addition, water/marine resources-related issues will increasingly affect the operations of undertakings and influence the undertaking's cash flows, performance, position, development, cost of capital or access to finance. It may be through physical hazards induced by water availability, floods or pollution and pressure on marine resources, as well as through policy and market responses in the EU and beyond, to apply the EU water framework directive and the EU marine strategy framework directive. On the other hand, the transition to ensuring a good quality of water and a good state of marine resources can also bring along opportunities, e.g., for undertakings offering products and services that contribute to policy objectives.
- BC12. In the preparation of [Draft] ESRS E3 the reporting on water/marine resources-related impacts, as well as on related risks and opportunities, covering the whole value chain, is material for all undertakings.

- BC13. The identification of dependencies on natural resources is also part of the materiality assessment. As regards marine resources, commercially exploited fish and shellfish are examples of living marine resources targeted for economic purposes (bony fishes, sharks and rays). Crustaceans such as lobsters and shrimps and mollusks (including bivalves, cuttlefish and squid) have also become an issue for global food security. Regarding the dependencies on raw materials from deep-sea mining, the integrity of seabed (physical, chemical and biological status) defines the functioning of marine ecosystems and is in particular relevant for species and communities living on the seabed. The destruction of the seabed is mainly caused by the extractive activity of minerals and sediments.
- BC14. The materiality assessment is the pillar around which the undertaking identifies the material impacts, risks and opportunities to be reported. For E3, the materiality assessment can be performed using the LEAP approach proposed by TNFD and structured around four different phases: i) locate; ii) evaluate; iii) assess; iv) report.”

Impact, risk and opportunity management

Disclosure Requirement E3-1 – Policies implemented to manage water and marine resources

- BC15. The CSRD requires undertakings to provide a description of the undertaking’s policies in relation to sustainability matters.
- BC16. This Disclosure Requirement provides an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or remediation of its material water and marine resources-related impacts, risks and opportunities.
- BC17. The ‘Policies’ reporting area should focus on describing policy commitments related to water/marine resources. However, policy commitments should be disclosed to facilitate a continuity of understanding between a given policy, and the targets, actions, resource allocations and outcomes to which it can lead.
- BC18. The current DR has taken into account the SFDR PAI indicators that require financial market participants (FMP) to consider and disclose the share of investments in investee companies: i) without water management policies; ii) with sites located in areas of high waterstress without a water management policy; iii) without sustainable oceans/seas practices or policies. The disclosures on such policies are pivotal to help FMP to rely on direct data for their investment portfolio and to be compliant with their disclosure obligation.
- BC19. In addition, based on the feedback received from public consultation, specific disclosures on areas at water risk, including high-water stress area have been strengthened considering such related information extremely important due to the significant impact on the environment.

Disclosure Requirement E3-2 – *Actions and* resources *related to water and marine resources*

- BC20. The CSRD requires undertakings to provide a description of the undertaking’s action plans in relation to sustainability matters.
- BC21. Action plans, as well as the corresponding policies, targets and the resources allocated shall be disclosed to ensure an understanding of the undertaking’s plans and resources allocated to water and marine resources and the contributions of those actions in conjunction with ESRS 2.
- BC22. An important role in the disclosure requirements related to actions and resources is played by the mitigation hierarchy that is structured around a set of guidelines in order to reduce development impacts and control any negative effects on the environment. The undertaking shall allocate actions and resources around the three layers of the mitigation hierarchy (avoid, reduce, restore).

- BC23. In addition, based on the feedback received from public consultation, specific disclosures on areas at water risk, including high-water stress area have been strengthened considering such related information extremely important due to the significant impact on the environment.

Metrics and targets

Disclosure Requirement E3-3– Targets related to water and marine resources

- BC24. The CSRD requires undertakings to disclose the time-bound targets related to sustainability matters including 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.
- BC25. In order to ensure a sound understanding of the undertaking's targets related to water and marine resources and to be able to assess those targets' contribution to the achievement of targets set out in EU-regulation and global frameworks, the undertaking shall disclose the targets it has adopted and clarify when they address certain areas., and in particular the absolute reduction of water consumption with a particular focus on areas at water risk.
- BC26. Under the CSRD provisions, ecological thresholds have been introduced in order to strengthen the process of the targets setting based on conclusive scientific evidence. Useful guidance is also provided by TNFD on the use of the methods by the Science-Based Targets Initiative for Nature (SBTN)
- BC27. Other useful guidance have been identified as good sources to be considered by undertakings:
- (a) *The practical guide to setting contextual corporate and site-level water target* published by the WWF;
 - (b) *Setting Enterprise Water Targets: A Guide for Companies* available on the CEO Water mandate.
- BC28. Based on the public consultation feedback, due to the lack of maturity of the water withdrawal and water discharge concepts, the related disclosure requirements may be disclosed on a voluntary base (see AR 23).

Disclosure Requirement E3-4 – Water consumption

- BC29. This Disclosure Requirement is inspired from EU legislation (SFDR) and international frameworks and in particular GRI 303.
- BC30. The Disclosure Requirement requires undertakings to disclose indicators according to SFDR PAI (always material and not subject to materiality assessment). Under ESRS 1, datapoints required by SFDR are always considered mandatory and they are not subjected to the materiality assessment.
- BC31. Based on the feedback received from the public consultation, the performance metrics on water withdrawn and discharge have been removed at sector-agnostic level but will be considered by the sector-specific layer.
- BC32. Additional metrics on water stored and changes in storage have been required under par. 28 as mandatory datapoints in order to be aligned with GRI 303-5.
- BC33. The datapoint on "water intensity performance" is required by SFDR and it is also aligned with the Commission Decision of 4 March 2013 establishing the user's guide setting out the steps needed to participate in EMAS, under Regulation (EC) No 1221/2009 of the European Parliament and of the Council on the voluntary participation by organisations in a community eco-management and audit scheme (EMAS).

Disclosure Requirement E3-5 – Potential financial effects from water and marine resources-related impacts, risks and opportunities

BC34. The CSRD proposal (article 19 a1) requires setting disclosure requirements in ESRS that allow to report information necessary to understand how sustainability matters affect the undertaking's cash flows, performance, position, development, cost of capital or access to finance over the short-, medium- and long-term time horizons. A phased-in provision (see ESRS 1) has been included due to the immaturity of reporting and data and methodology challenges faced by several undertakings: 3 years of qualitative information is allowed instead of quantitative information on potential financial effects of water and marine resources. The call for the phase-in requirements was made by several stakeholders including preparers and professional associations.

Disclosure Requirement not included

BC35. The DR on Marine resources related performance (DR E3-6 in the Exposure Draft) was deleted for this sector-agnostic standard:

- (a) the disclosure on performance metrics was not considered mature enough to find suitable indicators: and
- (b) marine resources are largely sector-specific on own operations and will be considered for other sets of standards.

Appendix: Sources of terms

Term	Source
Area of high-water stress	World Resources Institute's (WRI) Water Risk Atlas tool Aqueduct.
Area at water risk	CEO Water Mandate, Corporate Water Disclosure Guideline (2014)
Blue economy	EC Europa, Sustainable Blue Economy
Discharge	EEA glossary
Freshwater	CDP Technical Note on Water Accounting, Water Security 2022
Groundwater (renewable and non-renewable)	See art. 2 (20) of the Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
Marine resources	
Recycled/reused water	CDP Water Security Questionnaire preview and Reporting Guidance 2020
River Basin district	See art. 2 of the Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy. Also, Article 2 of Water Framework Directive
Wastewater	CEO Water Mandate, corporate water disclosure guidelines (2014)
Water consumption	CDP Technical Note on Water Accounting, Water Security 2022
Water discharge	CDP Technical Note on Water Accounting, Water Security 2022
Water scarcity	CEO Water Mandate, Detailed definitions
Water withdrawal	CDP Technical Note on Water Accounting, Water Security 2022



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