

## **[Draft] European Sustainability Reporting Standard E2 Pollution**

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WORKING PAPER

## [Draft] European Sustainability Reporting Standard E2 Pollution

### Objective

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- 1 The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:
  - (a) the positive and negative impacts of the undertaking on the pollution of air, water and soil, living organisms and food resources and its past, current and future measures to protect the environment from pollution;
  - (b) the nature, type and extent of risks and opportunities to which the undertaking is exposed, arising from pollution itself as well as from the prevention, control or elimination and reduction of pollution;
  - (c) the effects of pollution-related risks and opportunities on the undertaking's development, performance and position over the short-, medium- and long-term and thus on its ability to create enterprise value over the short-, medium- and long-term;
  - (d) the plans and capacity of the undertaking to adapt its business model(s) and operations in line with the transition to a sustainable economy concurring with the needs for prevention, control and elimination of pollution across air, water, soil, living organisms and food resources, thereby creating a toxic-free environment with zero pollution also in support of the EU Action Plan 'Towards a Zero Pollution for Air, Water and Soil'.
- 2 This standard derives from the (draft) CSRD stating that the sustainability reporting standards shall specify the information that undertakings are to disclose about environmental factors, including information about 'pollution'.
- 3 This standard covers Disclosure Requirements developed primarily from the perspective and for the reporting purpose of non-financial undertakings<sup>1</sup>. However financial undertakings shall apply this standard in relation to their own operations and value chain, it being understood that they are in addition subject to specific regulatory and other sector-specific Disclosure Requirements as their main impacts, risks and opportunities are indirect via their portfolio of financial products and services.
- 4 This standard sets out Disclosure Requirements related to pollution of air, water, soil, substances of concerns and enabling activities in support of prevention, control and elimination of pollution.
- 5 'Pollution of air' covers Disclosure Requirements related to the undertaking's emissions into air, and prevention, control and reduction of such emissions and thus pollution. In particular, 'Pollution of air' means the direct or indirect introduction into air, as a result of human activity, of substances, vibrations, heat or noise which may be harmful to human health or the quality of the environment, result in damage to material property, or impair or interfere with amenities and other legitimate uses of the environment.<sup>2</sup> Air pollutants cover nitrogen oxides (NOx), sulphur oxides (SOx), particulate matter (PM), heavy metals, etc. as defined in AG15.
- 6 'Pollution of water' covers Disclosure Requirements related to the undertaking's emissions into water, and prevention, control and reduction of such emissions and thus pollution. In particular, 'pollution of water' means the direct or indirect introduction into water, as a result of human activity, of substances, vibrations, heat or noise which may be harmful to human health or the quality of the environment, result in damage to material property, or impair or

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<sup>1</sup> A non-financial undertaking means an undertaking that is subject to the disclosure obligations laid down in Articles 19a and 29a of Directive 2013/34/EU and is not a financial undertaking, i.e. an asset manager, a credit institution as defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the European Parliament and of the Council<sup>22</sup>, an investment firm as defined in Article 4(1), point (2), of Regulation (EU) No 575/2013, an insurance undertaking as defined in Article 13, point (1), of Directive 2009/138/EC of the European Parliament and of the Council<sup>23</sup>, or a reinsurance undertaking as defined in Article 13, point (4) of Directive 2009/138/EC [Disclosures Delegated Act of the (EU) 2020/852 Regulation, commonly referred to as the EU Taxonomy

<sup>2</sup> Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on Industrial Emissions (integrated pollution prevention and control), at Article 3(2)

interfere with amenities and other legitimate uses of the environment.<sup>3</sup> Water pollutants cover synthetic organic compounds, pathogens, heavy metals, micro plastics, etc. as defined in AG15.

- 7 'Pollution of soil' covers Disclosure Requirements related to the undertaking's emissions into soil, and prevention, control and reduction of such emissions and thus pollution. In particular, 'pollution of soil' means the direct and indirect introduction into soil, as a result of human activity, of substances, vibrations, heat or noise which may be harmful to human health or the quality of the environment, result in damage to material property, or impair or interfere with amenities and other legitimate uses of the environment.<sup>4</sup> Soil pollutants cover inorganic pollutants, persistent organic pollutants (POPs), pesticides, nitrogen and phosphorus compounds, etc. as defined in AG15.
- 8 'Substance of concern' covers Disclosure Requirements related to the undertaking's use and/or proliferation of both substances of concern and most harmful substances to assess the potential or actual impact from their use and/or proliferation in a context of possible restrictions towards their use and/or proliferation. In particular, 'substances of concern' are intended to include substances having a chronic effect for human health or the environment or substances which hamper recycling for safe and high quality secondary raw materials; 'most harmful substances' are intended to cover substances as listed in the EU Chemicals Strategy for Sustainability<sup>5</sup> (see Appendix A – Defined terms).
- 9 'Enabling activities' cover Disclosure Requirements related to the undertaking's products and services that enable undertakings or individuals along the value chain, downstream and possibly upstream, to prevent, control and eliminate pollution and refer to the [draft report] by the Platform on sustainable finance on preliminary recommendations for technical screening criteria for the Taxonomy Regulation including the environmental objective of pollution prevention and control<sup>6</sup> (see Appendix A – Defined terms).

## Interactions with other ESRS

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- 10 The seven following greenhouse gases, namely carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF<sub>6</sub>) and nitrogen trifluoride (NF<sub>3</sub>) are connected to Pollution but are covered under the Disclosure Requirements of ESRS E1 on Climate change.
- 11 Specific implications from pollution on water related aspects, including water consumption, water use, etc. are addressed in ESRS E3 Water & Marine resources, while the measurement of pollution to water is addressed through this ESRS E2 Pollution. The possible impact from pollution on Biodiversity is addressed in ESRS E4 Biodiversity & ecosystems. Aspects of waste, its reduction and avoidance are addressed in ESRS E5 Circular economy.
- 12 Elements regarding pollution in a context that refers to, but is not limited to human rights, the workforce, 'just transition', etc. are covered under the respective social standards from ESRS S1 to ESRS S7.
- 13 The contents of this standard on Strategy and business model, Governance and organisation and Material impacts, risks and opportunities, as well as Policies, targets, action plans and resources shall be read in conjunction respectively with cross-cutting standards ESRS 2, ESRS 3, ESRS 4 and cross-cutting reference standard ESRS 5.

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<sup>3</sup> Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on Industrial Emissions (integrated pollution prevention and control), at Article 3(2)

<sup>4</sup> Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on Industrial Emissions (integrated pollution prevention and control), at Article 3(2)

<sup>5</sup> The EU's chemicals strategy for sustainability towards a toxic-free environment: [https://ec.europa.eu/environment/strategy/chemicals-strategy\\_fr](https://ec.europa.eu/environment/strategy/chemicals-strategy_fr)

<sup>6</sup> [Platform on Sustainable Finance - Technical Working Group - Taxonomy pack for feedback August 2021 \(europa.eu\)](#) and [Platform on Sustainable Finance - Technical Working Group - Annex: Full list of technical screening criteria August 2021 \(europa.eu\)](#)

- 14 This standard covers sector-agnostic Disclosure Requirements. Sector-specific Disclosure Requirements are developed separately and in accordance with the classification following ESRS SEC 1.

## **Disclosure Requirements**

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### **Strategy and business model; Governance and organisation; Impacts, risks and opportunities**

- 15 The Disclosure Requirements related to pollution and to (i) Strategy and business model, (ii) Governance and organisation, and (iii) Material impacts, risks and opportunities are defined below.
- 16 The specific pollution-related Disclosure Requirements hereafter (Disclosure Requirements 1 to 4) shall be read as complementary to the relevant cross-cutting standards (ESRS 2, ESRS 3 and ESRS 4) and they are to be reported upon by the undertaking under the related cross-cutting standards. The information to be covered by Disclosure Requirements 1 to 4 are those that due to their importance to the undertaking are prioritised and monitored directly by the undertaking's highest governing bodies.
- 17 With regards to the pollution-related Disclosure Requirements in ESRS 2 Strategy and business model, this topical standard includes one specific Disclosure Requirement. Disclosure Requirement 1 covers the Resilience of the strategy and business model(s) to risks related to pollution and to pollution prevention and control measures.
- 18 With regards to the pollution-related Disclosure Requirements in ESRS 3 Governance and organisation, this topical standard includes one specific Disclosure Requirement. Disclosure Requirement 2 covers the Governance and organisation: ensuring of compliance.
- 19 With regards to the pollution-related Disclosure Requirements in ESRS 4, this topical standard includes two specific Disclosure Requirements. Disclosure Requirement 3 covers the Processes and due diligence to identify material impacts, risks and opportunities related to pollution and to pollution prevention and control measures and Disclosure Requirement 4 covers the Material impacts, risks and opportunities related to pollution and pollution prevention and control measures.

### **Specific pollution-related disclosures for the implementation of ESRS 2 Strategy and business model**

#### **[Disclosure Requirement 1] – Resilience of the strategy and business model(s) to risks related to pollution and to pollution prevention and control measures**

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- 20 **The undertaking shall disclose information on (i) the resilience of the strategy and business model(s) to risks related to pollution and to pollution prevention and control measures, as well as on (ii) opportunities arising from pollution prevention and control measures and/or from enabling activities.**
- 21 The principle to be followed under this Disclosure Requirement is to provide an understanding of whether the undertaking's strategy and business model(s) can withstand principal risks related to pollution and to pollution prevention and control measures over time and under different plausible future states. It shall be disclosed in accordance with the Disclosure Requirements 7 and 8 under ESRS 2.
- 22 The disclosure required by paragraph [20] shall include pollution to air, pollution to water, pollution to soil, the proliferation and use of substances of concern including most harmful substances, as well as enabling activities in support of pollution prevention and control.
- 23 The disclosure required by paragraph [20] shall cover how the current and planned evolution of the business model(s) and strategy cause and drive pollution-related direct, indirect and cumulative impacts through the undertaking's own operations and value chain, and how the undertaking's own operations and value chain may be exposed to risks and opportunities arising from pollution and from pollution prevention and control measures.

**Specific pollution-related disclosures for the implementation of ESRS 3  
Governance and organisation**

***[Disclosure Requirement 2] – Governance and organisation: ensuring of compliance***

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- 24 **The undertaking shall describe its governance and organisation in relation to ensuring compliance with pollution prevention and control regulations.**
- 25 The principle to be followed under this Disclosure Requirement is to provide an understanding of how the undertaking ensures compliance with regulations. It shall be disclosed in accordance with the Disclosure Requirements 1, 2 and 3 under ESRS 3.
- 26 The disclosure required by paragraph [24] shall include a description of:
- (a) how and to whom the responsibility is assigned to ensure compliance with regulations regarding pollution prevention and control including performance measurement;
  - (b) how the undertaking seeks to prevent unintended pollution, including any dedicated resources, monitoring programs and initiatives. This disclosure shall include a description of the methodology, how and according to which principles ‘unintended pollution’ is defined, including respective thresholds (amount of pollution; time period of unintended emissions; etc.).

**Specific pollution-related disclosures for the implementation of ESRS 4 Material impacts, risks and opportunities**

***[Disclosure Requirement 3] – Processes and due diligence to identify material impacts, risks and opportunities related to pollution and to pollution prevention and control measures***

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- 27 **The undertaking shall disclose its processes and due diligence to identify and assess its:**
- (a) **impacts related to pollution and pollution prevention and control measures;**
  - (b) **risks and opportunities related to pollution and to pollution prevention and control measures.**
- 28 The disclosure required by paragraph [27] shall include a description of the processes to identify those impacts, risks and opportunities that due to their importance for the undertaking are prioritised and monitored directly by the undertaking’s highest governing bodies. It shall be disclosed in accordance with ESRS 4, Disclosure Requirement 1.
- 29 The disclosure required by paragraph [27] shall include the due diligence processes used to identify actual and potential impacts on pollution, from pollution and from pollution prevention and control connected with the undertaking’s business, performance, position and development, including the extent to which these involve:
- (a) taking into consideration scientific and analytical research on impacts on pollution;
  - (b) engaging with stakeholders to understand the ways in which they may be impacted and they may impact pollution and pollution prevention and control;
  - (c) assessing the capacity of the undertaking to continue:
    - (i) using the resources needed in its productive processes;
    - (ii) relying on relationships needed in their productive processes in the same terms as presently done or whether the undertaking’s practices may trigger any adverse reaction.

***[Disclosure Requirement 4] – Material impacts, risks and opportunities related to pollution and pollution prevention and control measures***

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- 30 The undertaking shall disclose a description of its:
- (a) **impacts related to pollution and pollution prevention and control measures;**
  - (b) **risks and opportunities related to pollution and pollution prevention and control measures.**
- 31 The principle to be followed under this Disclosure Requirement is to provide an understanding of the material impacts, risks and opportunities related to pollution and pollution prevention and control that due to their importance to the undertaking are prioritised and monitored directly by the undertaking's board in accordance with ESRS 4, Disclosure Requirements 2 and 3.
- 32 The disclosure required by paragraph [30] shall rely on the outcome of the processes to identify and assess climate-related impacts, risks and opportunities under Disclosure Requirement 3 of this standard.

**Policies, targets, action plans and resources**

- 33 The specific pollution-related Disclosure Requirements 5 to 7 developed hereafter refer to ESRS 5 Definitions for policies, targets, action plans and resources and shall be read as complementary to the respective cross-cutting standard (ESRS 5).

***[Disclosure Requirement 5] – Policies implemented to prevent and control pollution***

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- 34 **The undertaking shall disclose its corporate-wide policies related to pollution prevention and control.**
- 35 The principle to be followed under this Disclosure Requirement is to provide an understanding of the undertaking's ability (i) to mitigate its negative impacts and maximise its positive impact on pollution and on pollution prevention and control in and through its own operations and throughout the value chain and (ii) to monitor and manage its physical and transition risks and opportunities with regard to pollution and pollution prevention and control.
- 36 The disclosure required by paragraph [34] shall include for each policy commitment:
- (a) first, a classification in one or more of the following:
    - (i) pollution of air;
    - (ii) pollution of water;
    - (iii) pollution of soil;
    - (iv) substances of concern;
    - (v) enabling activities; or
    - (vi) other;
  - (b) then an additional classification as either:
    - (i) prevention of pollution at the source;
    - (ii) minimisation and control of pollution;
    - (iii) elimination and remediation of pollution; or
    - (iv) other.



**[Disclosure Requirement 6] – Measurable targets for pollution**

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- 37 **The undertaking shall describe (i) the measurable outcome-oriented targets set to meet the pollution-related policy’s objectives and (ii) the overall progress against the defined targets.**
- 38 The principle to be followed under this Disclosure Requirement is to provide an understanding of the targets which the undertaking intends to achieve on prevention, control and elimination of pollution to air, to water and to soil, including but not limited to the undertaking’s contribution to the EU Action Plan ‘Towards a Zero Pollution for Air, Water and Soil’, and in support of the reduction and elimination of the proliferation of substances of concern.
- 39 The disclosure required by paragraph [37] shall include, based on the undertaking’s materiality assessment, targets related to:
- (a) pollution to air in terms of volume and intensity;
  - (b) pollution to water in terms of volume and intensity;
  - (c) pollution to soil in terms of volume and intensity;
  - (d) substances of concern as absolute turnover and share of total turnover, absolute raw material cost and share of total raw material cost;
  - (e) most harmful substances as absolute turnover and share of total turnover, absolute raw material cost and share of total raw material cost.
- 40 The disclosure required in paragraph [37] shall also include:
- (a) a description of how targets are tightly connected with material impacts disclosed in the section ‘Material impacts, risks and opportunities’, and if they are not connected with determined material impacts, a comprehensive justification as to why a material impact is not covered by a target;
  - (b) a description of how targets contribute to the objectives of the EU Action Plan ‘Towards a Zero Pollution for Air, Water and Soil’;
  - (c) a presentation preferably in 5-years periods including set dates in 2030, detailing the scope covered in absolute and/or intensity values;
  - (d) as applicable, the geographical scope of the target: a description of the geographies covered by the target and, if applicable, an explanation of why the relevant geographies identified were not included;
  - (e) whether targets are mandatory (based on legislation) or voluntary.
- 41 The undertaking shall disclose which actions are taken to achieve the targets and possible changes in strategy that are supporting the achievement of the targets.

**[Disclosure Requirement 7] – Pollution action plans and resources**

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- 42 **An undertaking shall describe its action plans and allocation of resources to meet its pollution-related policy objectives and targets.**
- 43 The principle to be followed under this Disclosure Requirement is to provide an understanding of (i) the corporate actions and action plans comprising closely interrelated management measures being undertaken in the framework of its corporate policies and (ii) the related allocation of resources.
- 44 The disclosure required by paragraph [42] shall include, for each corporate action plan or action, a description of:
- (a) the geographical scope of the actions, including explanation of any limitations as to geographical boundaries or activities;
  - (b) a list of the stakeholders involved in the actions or action plan and how they are involved, or/and a list of stakeholders impacted negatively or positively by the actions or action plan and how they are impacted.
- 45 The action plan shall also include:

- (a) an explanation whether the action is intended to be a one-time initiative or a systematic practice;
- (b) a brief assessment whether key actions may induce significant adverse sustainability impacts;
- (c) further explanations deemed useful to understand key actions;
- (d) if the action is individual or collective: for a collective action, the undertaking shall explain its role;
- (e) whether the success of the action depends on similar or supporting actions by other undertakings, and to what degree.

## **Performance measurement**

### **[Disclosure Requirement 8] – Pollution of air, water and soil**

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- 46 **The undertaking shall disclose a list of all pollutants that are created during production processes and leave its facilities as emissions, whether intended or unintended, or as part of services or as products.**
- 47 The principle to be followed under this Disclosure Requirement is to provide transparency on the emissions that the undertaking generates.
- 48 The disclosure required by paragraph [46] shall include emissions to air, emissions, effluents or other entries to water and pollutants to soil resulting from its operations. That disclosure shall be in line with the reporting requirements according to the requirements of the European Pollutant Release and Transfer Register (E-PRTR) and pollutants to be reported by the undertaking shall be those that meet or exceed the criteria and the thresholds of the E-PRTR across the entire undertaking, whether they occur within the EU or outside the EU.
- 49 For each pollutant to air, water or soil, the undertaking shall include measurements of:
- (a) emissions volume, using standard measures such as metric tons, kilograms, barrels etc;
  - (b) a suitable emissions intensity measure which adequately and in a meaningful manner reflects the volume, scope or breadth of sales of the undertaking; and
  - (c) where relevant, the land or water affected (in km<sup>2</sup>).

### **[Disclosure Requirement 9] – Substances of concern**

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- 50 **The undertaking shall disclose the share of business activity related to ‘substances of concern’ and ‘most harmful substances’.**
- 51 The principle to be followed under this Disclosure Requirement is to provide an understanding of the undertaking’s business exposure towards ‘substances of concern’ and ‘most harmful substances’ and possible risks arising from changes in regulations towards the production, use and proliferation of such substances.
- 52 The disclosure required by paragraph [50] shall include the share of turnover related to products or services that are, contain or use substances of concern and/or most harmful substances, as well as the share of cost of sales related to this turnover – expressed at the respective cost of acquisition and/or cost of manufacturing – in proportion to the undertaking’s respective total turnover and total cost of sales.
- 53 The disclosure required by paragraph [50] may include additional information related to the pro-rata share of turnover of Joint Ventures reported at equity.

***[Disclosure Requirement 10] – Taxonomy Regulation for pollution prevention and control including enabling activities***

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- 54 The undertaking shall disclose information required by Article 8 of the Regulation (EU) 2020/852 (Taxonomy Regulation) in conjunction with the Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 and in conjunction with upcoming technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to pollution prevention and control.
- 55 The Taxonomy Regulation in its Article 8(2) requires undertakings to disclose information on the proportion of the turnover, capital expenditure ('CapEx') and operating expenditure ('OpEx') associated with economic activities that qualify as environmentally sustainable.
- 56 The information to be disclosed under the upcoming pollution-related provisions of the Taxonomy regulation shall be complementary to the information disclosed under the provisions of this standard as it provides an understanding of the undertaking's own substantial contribution in favour of pollution prevention and control.

***[Disclosure Requirement 11] – Sustainability and financial impacts and exposures to incidents***

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- 57 **The undertaking shall disclose the impact of and its financial exposure to pollution-related incidents.**
- 58 The principle to be followed under this Disclosure Requirement is to provide an understanding of how principal pollution-related incidents may affect the environment and society and/or the undertaking's financial position and performance over the short-, medium- and long-term.
- 59 The disclosure required by paragraph [57] shall cover a description of major incidents, based on double-materiality assessments, whereby pollution had negative effects on the environment and/or on the undertaking's financial performance in the past reporting year, e.g. through interruptions of production and/or in supply chain as a result of pollution, or pollution prevention and control measures.

***[Optional Disclosure Requirement 12] – Financial opportunities related to pollution prevention and control other than the Taxonomy Regulation***

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- 60 **The undertaking may disclose its financial opportunities that relate to pollution prevention and control and that complement the Taxonomy Regulation related ones.**
- 61 The principle to be followed under this Disclosure Requirement is to provide information allowing for an overall understanding of the financial opportunities related to pollution prevention and control, complementing the information requested under the Taxonomy Regulation.
- 62 If the undertaking discloses the information according to paragraph 60, it shall include an assessment of the market size of related products and services over the short-, medium-, and long-term, explaining how these are defined, how financial amounts are estimated and which critical assumptions are made.

**Application provisions**

- 63 Nil.

## **Appendix A: Defined terms**

This appendix is integral part of the [draft] ESRS E2 Pollution.

<b>Air</b>	'Air' means the mixture of gases that surrounds the earth and that species breathe. <sup>7</sup> :
<b>Cumulative impact</b>	For the definition of 'impact', see ESRS 4, Appendix A. 'Cumulative' means increasing by one addition after another, and including all the amounts that have been added before. <sup>8</sup>
<b>Emission</b>	'Emission' means the direct or indirect release of substances, vibrations, heat or noise from individual or diffuse sources [...] into air, water or soil. <sup>9</sup>
<b>Direct impact</b>	For the definition of 'impact', see ESRS 4, Appendix A. 'Direct' means without anyone or anything else being involved or between. <sup>10</sup>
<b>Enabling activities</b>	'Enabling activities' are defined as those, where an economic activity shall qualify as contributing substantially to one or more of the environmental objectives set out in Article 9 of the EU Taxonomy Regulation by directly enabling other activities to make a substantial contribution to one or more of the EU Taxonomy's environmental objectives, provided that such economic activity:  (a) does not lead to a lock-in of assets that undermine long-term environmental goals, considering the economic lifetime of those assets; and  (b) has a substantial positive environmental impact, on the basis of life-cycle considerations. <sup>11</sup>
<b>Essential use</b>	'Essential use' is aimed to be defined within the Chemicals Strategy for Sustainability (CSS) where it is stated that the essential use criteria will ensure that the most harmful chemicals are only allowed if their use is necessary for health, safety or is critical for the functioning of society and if there are no alternatives. The basis of this is the Montreal protocol decision IV/25. <sup>12</sup>
<b>Indirect impact</b>	For the definition of 'impact', see ESRS 4, Appendix A. 'Indirect' means happening in addition to an intended result or not being connected in a simple and/or direct way. <sup>13</sup>

<sup>7</sup> Taken from Cambridge Dictionary

<sup>8</sup> Taken from Cambridge Dictionary

<sup>9</sup> Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on Industrial Emissions (integrated pollution prevention and control), at Article 3(4)

<sup>10</sup> Taken from Cambridge Dictionary

<sup>11</sup> 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, at Article 16

<sup>12</sup> PLATFORM ON SUSTAINABLE FINANCE: TECHNICAL WORKING GROUP, Taxonomy pack for feedback August 2021, p. 28

<sup>13</sup> Taken from Cambridge Dictionary

<b>Most harmful substances</b>	<p>'Most harmful substances' (as listed in the Chemicals Strategy for Sustainability<sup>14</sup>) are:</p> <ul style="list-style-type: none"> <li>• carcinogenic, mutagenic or reprotoxic substances (CMRs);</li> <li>• persistent, bioaccumulative and toxic substances (PBTs);</li> <li>• very persistent and very bioaccumulative substances (vPvBs);</li> <li>• endocrine disrupting substances (EDs);</li> <li>• immunotoxicants;</li> <li>• neurotoxicants, respiratory sensitisers;</li> <li>• substances having specific organ toxicity (STOT) with chronic effects;</li> <li>• persistent, mobile and toxic substances (PMTs); and</li> <li>• very persistent and very mobile substances (vPvMs).</li> </ul>
<b>Pollutant</b>	<p>'Pollutant' means a substance, vibration, heat, noise, light or other contaminant present in air, water or soil which may be harmful to human health and/or the environment, which may result in damage to material property, or which may impair or interfere with amenities and other legitimate uses of the environment.<sup>15</sup></p> <p>For a definition of 'pollution' and 'pollutants', see Article 2 points (10) and (12) of the Taxonomy Regulation (EU) 2020/852.</p>
<b>Pollution</b>	<p>'Pollution' means the direct or indirect introduction, as a result of human activity, of pollutants into air, water or soil which may be harmful to human health and/or the environment, which may result in damage to material property, or which may impair or interfere with amenities and other legitimate uses of the environment.<sup>16</sup></p> <p>For a definition of 'pollution' and 'pollutants', see Article 2 points (10) and (12) of the Taxonomy Regulation (EU) 2020/852.</p>
<b>Soil</b>	<p>'Soil' means the top layer of the Earth's crust situated between the bedrock and the surface. The soil is composed of mineral particles, organic matter, water, air and living organisms.<sup>17</sup></p>
<b>Substance of concern</b>	<p>'Substance of concern' cover:</p> <ul style="list-style-type: none"> <li>• substances having a chronic effect for human health or the environment (Candidate list in REACH and Annex VI to the CLP Regulation);</li> <li>• those which hamper recycling for safe and high quality secondary raw materials; and</li> </ul> <p>the most harmful substances as listed in the Chemicals Strategy for Sustainability.</p>
<b>Water</b>	<p>Refer to the definitions in ESRS E3 Water &amp; Marine resources.</p>

<sup>14</sup> European Commission, Communication of 14 October 2020 on Chemicals Strategy for Sustainability Towards a Toxic-Free Environment

<sup>15</sup> 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, at Article 2(10)

<sup>16</sup> Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on Industrial Emissions (integrated pollution prevention and control), at Article 3(2)

<sup>17</sup> Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on Industrial Emissions (integrated pollution prevention and control), at Article 3(21)

## **Appendix B: Application Guidance**

This appendix is an integral part of the [draft] ESRS E2 Pollution. It describes the application of the requirements set for in paragraphs [15–63] and has the same authority as the other parts of the [draft] ESRS E2 Pollution.

### **[Disclosure Requirement 1] – Resilience of the strategy and business model(s) to risks related to pollution and to pollution prevention and control measures**

- AG1. When disclosing information required under Disclosure Requirement 1, the undertaking shall consider its strategy to mitigate unfavourable impacts on and risks to its business model(s) and value chain arising from pollution, and from pollution prevention and control measures, including where in the value chain pollution-related risks are concentrated.
- AG2. When disclosing information required under Disclosure Requirement 1, the undertaking shall provide an understanding of:
- (a) its strategy for and contribution to the prevention and control of pollution to air, to water and to soil, and its strategy for and contribution to the reduction of the proliferation of ‘substances of concern’ including ‘most harmful substances’, in particular but not limited to the undertaking’s contribution of the EU Action Plan ‘Towards a Zero Pollution for Air, Water and Soil’;
  - (b) the extent to which it is or may be affected by the targets and measures of the EU Action Plan ‘Towards a Zero Pollution for Air, Water and Soil’, including the revision of existing directives (e.g., the Industrial Emissions Directive);
  - (c) how it intends to reduce its pollution footprint to contribute to the targets of the EU Action Plan ‘Towards a Zero Pollution for Air, Water and Soil’; and
  - (d) thus, how the EU Action Plan does or might impact the undertaking’s business model.
- AG3. When disclosing information under paragraph AG2.(a), the undertaking shall provide an understanding, where relevant, of:
- (a) how it might be impacted by and contribute to the intention of the EU that ‘substances of concern are minimised and substituted as far as possible and phasing out the most harmful ones for non-essential societal use, in particular in consumer products’<sup>18</sup>;
  - (b) an analysis of the resilience of the current business model and strategy in terms of both physical risks and transition risks with respect, but not limited to the targets of the EU Action Plan.
- AG4. When disclosing information under paragraph AG2.(c) the undertaking shall describe, where relevant, how its business model enables to make a Substantial Contribution to the EU Taxonomy for Pollution Prevention and Control.

### **[Disclosure Requirement 3] – Processes and due diligence to identify material impacts, risks and opportunities related to pollution and to pollution prevention and control measures**

- AG5. The application guidance for Disclosure Requirement 3 shall follow those of ESRS 4 Sustainability material impacts, risks and opportunities as applied to Pollution.

### **[Disclosure Requirement 4] – Material impacts, risks and opportunities related to pollution and pollution prevention and control measures**

- AG6. When disclosing information required under Disclosure Requirement 4, the undertaking shall present the material impacts, risks and opportunities within its operations and along its value chain by categories:

<sup>18</sup> Source: COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS, Chemicals Strategy for Sustainability, Towards a Toxic-Free Environment, Brussels, 14.10.2020

- (a) transition risks including reputational, financing and supply chain;
- (b) opportunities: regulatory, market, financial and the link with enabling activities;
- (c) physical risks;
- (d) ecological risks;
- (e) liability risks;
- (f) other risks and opportunities.

AG7. The undertaking shall also include a description of its knowledge of its suppliers' pollution-related dependencies and impacts, as well as risks and opportunities.

#### ***[Disclosure Requirement 5] – Policies implemented to prevent and control pollution***

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AG8. The application guidance for Disclosure Requirement 3 shall follow those of ESRS 5 Definitions for policies, targets, action plans and resources as applied to Pollution.

#### ***[Disclosure Requirement 6] – Measurable targets for pollution***

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AG9. When disclosing targets under Disclosure Requirement 6, the undertaking shall also clarify when a target addresses shortcomings related to the Do No Significant Harm (DNSH) criteria for Pollution Prevention and Control when making a Substantial Contribution to one of the other environmental objectives of the EU Taxonomy.

#### ***[Disclosure Requirement 7] – Pollution action plans and resources***

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AG10. Where the implementation of actions or an action plan requires substantial mobilisation of resources, involving significant operational costs and/or capital expenditures the undertaking shall describe the resources needed and allocated.

AG11. The undertaking should describe the actions contributing to system-wide change, notably to alter the drivers of pollution, e.g. through technological, economic, institutional, and social factors and changes in underlying values and behaviours.

AG12. If the undertaking cannot disclose the information required by paragraph [42], because it has not adopted any action plans or actions, the undertaking shall provide reasons for not having adopted them.

AG13. Where an action plan extends to supply chain or customer engagements, the undertaking shall disclose the extent of these engagements, which may include:

- (a) onboarding & compliance;
- (b) incentivising for improved pollution prevention and control, including stewardship;
- (c) innovation;
- (d) assessment of supplier performance against its own pollution prevention and control commitments;
- (e) selection processes against its own pollution prevention and control commitments;
- (f) training and collaboration.

#### ***[Disclosure Requirement 8] – Pollution of air, water and soil***

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AG14. The undertaking shall describe its measurement processes for collecting data for pollution related accounting and reporting, the type of data needed, the information sources as well as the formal documentation typically connected to desired objectives, outcomes or outputs, such as those connected to targets and goals, the validation process and the verification process as well as the frequency of monitoring pollution prevention and control actions and reporting of pollution.

AG15. When disclosing information under Disclosure Requirement 8,

- (a) the air pollutants for which disclosure shall be reported include, but shall not be limited to the following ones, subject to the criteria and thresholds of the E-PRTR requirements (as per paragraph [48]):
- (i) ammonia (NH<sub>3</sub>);
  - (ii) volatile organic compounds (VOCs) - benzene, toluene, ethylbenzene and xylenes;
  - (iii) nitrogen oxides (NO<sub>x</sub>);
  - (iv) sulphur oxides (SO<sub>x</sub>);
  - (v) fine particulate matters PM<sub>2.5</sub>;
  - (vi) particulate matter PM<sub>10</sub>;
  - (vii) heavy metals, including lead, nickel and cadmium;
  - (viii) carbon monoxide (CO);
  - (ix) persistent organic pollutants (POPs);
  - (x) ozone depleting substances (ODS);
  - (xi) other (hazardous) chemicals regulated by REACH<sup>19</sup> and CLP<sup>20</sup> and their compounds (e.g. substances of very high concern (SVHC), chlorine, fluorine, bromine, iodine, asbestos, cyanides, arsenic, other carcinogenic, mutagenic and reprotoxic chemicals (CMRs), PBTs, EDCs);
  - (xii) other physical pollutants (heat, noise, light, radiation, odour);
- (b) the water pollutants for which disclosure shall be reported include, but shall not be limited to the following ones, subject to the criteria and thresholds of the E-PRTR requirements (as per paragraph [48]):
- (i) oxygen demanding pollutants and nutrients (bio-degradable organic compounds in suspended, colloidal, or dissolved form);
  - (ii) synthetic organic compounds (pesticides, detergents, food additives, pharmaceuticals, insecticides, paints, fibres, polychlorinated biphenyls (PCBs), solvents, polycyclic aromatic hydrocarbons (PAHs), and VOCs);
  - (iii) hydrocarbons;
  - (iv) pathogens (viruses, bacteria);
  - (v) inorganic pollutants (heavy metals, mineral acids, inorganic salts, other metals, complexes of metals with organic compounds, cyanides, sulphates, etc.);
  - (vi) micro plastics and plastic particles;
  - (vii) other physical pollutants (heat, radiation, light, noise/vibration, suspended solids and sediments);
- (c) the soil pollutants for which disclosure shall be reported include, but shall not be limited to the following ones, subject to the criteria and thresholds of the E-PRTR requirements (as per paragraph [48]):
- (i) inorganic pollutants;
  - (ii) organic compounds, including POPs, pesticides, pharmaceuticals and antibiotics;
  - (iii) nitrogen and phosphorous compounds;
  - (iv) other (physical) pollutants (vibrations, micro plastics and plastic particles).

<sup>19</sup> Regulation (EC) No 1907/2006 on registration, evaluation, authorisation and restriction of chemicals

<sup>20</sup> Regulation (EC) No 1272/2008 on classification, labelling and packaging of substances and mixtures



- AG16. If the undertaking has emissions from the lists above that affect more than one element, and it is not feasible to calculate them separately, – e.g. both air and water, or both water and soil –, it may report such emissions in a combined manner, however disclosing that such emissions affect more than one element, and which ones.
- AG17. For each one of the pollution performance measures required under Disclosure Requirement 8, the undertaking shall disclose the source of pollution factors used, as well as standards, methodologies, assumptions, and/or calculation tools used.
- AG18. When compiling the information on pollutant performance measures specified in the Disclosure Requirement 8, the undertaking shall apply the following approaches for calculating pollution in the following order of priority:
- (a) direct measurement of emissions, effluents or other pollution;
  - (b) calculation based on site-specific data;
  - (c) calculation based on published pollution factors;
  - (d) estimation.
- AG19. Where an inferior methodology compared to direct measurement of emissions is chosen to compile emissions, the reasons for choosing this inferior methodology shall be outlined by the undertaking. If estimations are used, the undertaking shall indicate the basis on which figures were estimated, as well as the possible degree of uncertainty/spread of emissions based on these estimations.
- AG20. The undertaking may provide a breakdown of its emissions by type of source, by business unit or economic activity and/or by geographical aspects (in line with GRI 305.7). Where an undertaking reports segment data in its financial statements, the use of the same segments for pollution disclosures is encouraged.
- AG21. The undertaking may put its disclosure into context with:
- (a) the local air quality indices (AQI), where the undertaking's pollution occurs;
  - (b) the degree of urbanization (DEGURBA)<sup>21</sup>, where pollution occurs;
  - (c) the degree in % of the total quantity, to which pollution to air, water and soil of the undertaking occurs in areas of water stress [as defined in the ESRS E3 Water & Marine Resources, Appendix A].
- AG22. For each pollutant for which disclosures are required, absolute and intensity disclosures may be made in tabular format and with separate table row entries. Each row may include current and (where applicable) comparative values, alongside associated targets and target dates, and the respective calculation methodology of that pollutant. Example:

Pollutant	Pollution to	Measure type	Reporting Year N	Reporting Comparative	Target	Target Date	Calculation methodology
SOx (sulphur oxides)	Air or Water or Soil	Absolute or Intensity or Impact or Other					

<sup>21</sup> [https://ec.europa.eu/eurostat/web/degree-of-urbanisation/background#:~:text=The%20Degree%20of%20urbanisation%20\(DEGURBA,based%20on%202020%20Census%20results](https://ec.europa.eu/eurostat/web/degree-of-urbanisation/background#:~:text=The%20Degree%20of%20urbanisation%20(DEGURBA,based%20on%202020%20Census%20results)

**[Disclosure Requirement 9] – Substances of concern**

AG23. For ‘substances of concern’ and ‘most harmful substances’, the undertaking shall disclose the requested disclosures in the following tabular format:

KPIs	Absolute Turnover 202x of products and services	Share in % of total Turnover 202x of the reporting undertaking	Target Turnover 202x of products and services	Target Share in % of total Turnover 202x of the reporting undertaking
Substances of concern	Monetary amount	%	Monetary amount	%
Most harmful substances	Monetary amount	%	Monetary amount	%

KPIs	Absolute Expenditures 202x as raw materials	Share in % of total Cost of Sales 202x of the reporting undertaking	Target Expenditures 202x as raw materials	Target Share in % of total Cost of Sales 202x of the rep. undertaking
Substances of concern	Monetary amount	%	Monetary amount	%
Most harmful substances	Monetary amount	%	Monetary amount	%

**[Disclosure Requirement 11] – Sustainability and financial impacts and exposures to incidents**

AG24. When disclosing information related to disclosure Requirement 11, the undertaking shall include:

- (a) the cases of unintended pollution in absolute terms of events occurred, and major environmental and societal impacts shall be described, based on a respective materiality assessment;
- (b) the estimated amount of turnover lost as a consequence of the incidents described above, as well as the monetary costs incurred as a consequence of these incidents, for example but not limited to:
  - (i) cost for eliminating and remediating the respective pollution of air, water and soil;
  - (ii) damage compensation costs;
  - (iii) payment of fines and penalties imposed by regulators or government authorities.

## **Appendix C: Digitisation Guidance**

This appendix is an integral part of [draft] ESRS E2 on Pollution. It describes the instructions for the digital tagging.

To be further developed

WORKING PAPER

## **Basis for Conclusions**

### **Context**

- BC1. This [draft] Basis for Conclusions accompanies but is not part of [draft] ESRS E2 Pollution. It summarises the considerations and references of the [EFRAG Sustainability Standards Board (the 'Board')] in developing the contents of the [draft] standard. [Individual Board members may be giving greater weight to some factors than to others.]
- BC2. The general approach followed by (the Board) covers the following steps:
- (a) complying first with the requirement of the draft CSRD;
  - (b) seeking guidance if necessary from the existing NFRD and its 2017 and 2019 implementation guidelines;
  - (c) analysing the current international frameworks as recital 37 of the CSRD requires that 'sustainability reporting standards should take account of existing standards and frameworks for sustainability reporting and accounting where appropriate. Those include the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC), the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB) respectively, the Task-Force on Climate-related Financial Disclosures (TCFD), the Carbon Disclosure Standards Board, and CDP. Guidance from and coherence with these existing standards and frameworks have been sought.

### **Objective**

- BC3. Based on the relevant provisions from the Corporate Sustainability Reporting Directive (CSRD) proposal, existing and upcoming EU legislation (EU Taxonomy<sup>22</sup>, SFDR<sup>23</sup>, PEF/OEF<sup>24</sup>, EMAS<sup>25</sup>, E-PRTR<sup>26</sup>), the EU Action Plan: 'Towards a Zero Pollution for Air, Water and Soil' (ZPAP) and the mandate and approach of the EFRAG PTF-ESRS, the Objective of the environmental standard on Pollution should be to ensure that stakeholders of the undertaking obtain the necessary information that enables them to understand:
- (a) the positive and negative impacts of the undertaking on the pollution of air, water, or soil, considering its past, current, and future efforts to protect the environment from pollution;
  - (b) the nature, type and extent of the risks and opportunities, arising from the prevention, control, or elimination/reduction of pollution, to which the undertaking is exposed;
  - (c) the effects of pollution-related risks and opportunities on the undertaking's financial position, financial performance, and ability to create enterprise value on the short/medium and long-term;
  - (d) the plans and capacity of the undertaking to adapt its business model and operations in line with the transition to a sustainable economy in line with prevention and elimination of pollution across air, water, and soil, thereby creating a toxic-free environment with zero pollution.
- BC4. The ESRS seeks an appropriate compatibility with other international initiatives, including:
- (a) The Global Reporting Initiative (GRI);
  - (b) the proposed performance measures with those of the Sustainability Accounting Standards Board (SASB), based on the KPIs considered for sector-specific standards.
  - (c) the 'WEF metrics' (World Economic Forum, 'Measuring Stakeholder Capitalism, Towards Common Metrics and Consistent Reporting of Sustainable Value Creation', White Paper, September 2020).

- (d) the 'Natural Capital Protocol'<sup>27</sup>
- (e) the ISO Standard 14008:2019, covering the monetary valuation of environmental impacts and related environmental aspects, as well as other pollution and air quality ISO standards.

*EU legislation and policies alignment:*

BC5. To ensure consistency with the political targets of the European Union, and to align with other frameworks, the ESRS E2 Pollution has been very closely aligned with the following publications, although they represent in some instances still drafts to be formally approved. As such, along with formal approval of the respective texts might come changes to the ESRS E2 Pollution:

- (a) the EU Regulation 166/2006 concerning the establishment of a European Pollutant Release and Transfer Register (E-PRTR),
- (b) the EU Action Plan: 'Towards a Zero Pollution for Air, Water and Soil' (ZPAP) as a key deliverable of the EU Green Deal, adopted by the EU Commission on May 12, 2021,
- (c) the proposal made by the Technical Working Group of the Platform on Sustainable Finance (PSF) published on August 3, 2021, the Sustainable Finance Disclosure Regulation (SFDR) draft Regulatory Technical Standards (RTS), published on February 2, 2021,

BC6. The EU Regulation 166/2006 concerning the establishment of a European Pollutant Release and Transfer Register (E-PRTR) provides one basis for concluding on performance measures, which non-financial undertakings shall disclose also under the ESRS E2 Pollution. The E-PRTR shall represent 'a cost-effective tool for encouraging improvements in environmental performance, for providing public access to information on releases of pollutants and off-site transfers of pollutants and waste, and for use in tracking trends, demonstrating progress in pollution reduction, monitoring compliance with certain international agreements, setting priorities and evaluating progress achieved through Community and national environmental policies and programmes. [...] An integrated and coherent PRTR gives the public, industry, scientists, insurance companies, local authorities, non-governmental organisations and other decision-makers a solid database for comparisons and future decisions in environmental matters'<sup>28</sup>. The E-PRTR clearly defines Activities as well as Pollutants that are already today required to be disclosed under the E-PRTR Regulation.

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<sup>22</sup> Platform on Sustainable Finance: Technical Working Group, Taxonomy Pack for Feedback, August 2021

<sup>23</sup> "Adverse sustainability indicators" from the SFDR draft Regulatory Technical Standards (RTS), February 2021

<sup>24</sup> Final Product Environmental Footprint and Organisation Environmental Footprint methods (2013, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013H0179>)

<sup>25</sup> EMAS regulations published under [https://ec.europa.eu/environment/emas/emas\\_publications/policy\\_en.htm](https://ec.europa.eu/environment/emas/emas_publications/policy_en.htm)

<sup>26</sup> European Pollutant Release and Transfer Register (E-PRTR), <https://ec.europa.eu/environment/industry/stationary/e-prtr/legislation.htm>

<sup>27</sup> Natural Capital Coalition. 2016. "Natural Capital Protocol". (Online) available at: [www.naturalcapitalcoalition.org/protocol](http://www.naturalcapitalcoalition.org/protocol)

<sup>28</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006R0166&from=EN>

- BC7. The EU Action Plan: 'Towards a Zero Pollution for Air, Water and Soil' (ZPAP) is an important framework as it stipulates the EU ambitions towards pollution prevention and control, and should therefore be taken into account by non-financial undertakings when reporting on arising risks and opportunities related to pollution prevention and control: 'The main objective of this action plan is to provide a compass for including pollution prevention in all relevant EU policies, maximising synergies in an effective and proportionate way, stepping up implementation and identifying possible gaps or trade-offs. To steer the EU towards the 2050 vision of a Healthy Planet for All, this action plan sets key 2030 targets to speed up pollution reduction. [...] Under EU law, Green Deal ambitions and in synergy with other initiatives, by 2030 the EU should reduce: 1. by more than 55% the health impacts (premature deaths) of air pollution; 2. by 30% the share of people chronically disturbed by transport noise; 3. by 25% the EU ecosystems where air pollution threatens biodiversity; 4. by 50% nutrient losses, the use and risk of chemical pesticides, the use of the more hazardous ones, and the sale of antimicrobials for farmed animals and in aquaculture; 5. by 50% plastic litter at sea and by 30% microplastics released into the environment; 6. significantly total waste generation and by 50% residual municipal waste. This action plan also sets out key actions for 2021-2024 to complement the many relevant actions in other European Green Deal initiatives, including the chemicals strategy for sustainability.'<sup>29</sup>
- BC8. The proposal made by the Technical Working Group of the Platform on Sustainable Finance (PSF) published on August 3, 2021, contains headline ambition levels regarding pollution. However, it has to be stated that those headline ambition levels are not necessarily in line with L1 legislative texts of the EU, so only elements of these headline ambition levels were considered in the elaboration of the ESRS E2 Pollution: 'By 2030, pollution sources, sinks and pathways due to human activities have been fully identified and measures have been applied that prevent and eliminate pollution. By 2030, the production and use of substances, materials and products is safe and taxonomy-aligned. Substances of concern have been substituted and their production and use have been minimized, as far as possible. Where substances of concern are still being used, their use, presence in products and articles and quantities is being tracked to ensure adequate risk management throughout their life cycle. The sub-group of the most harmful substances (incl. ozone depleting substances) are phased out from products for consumer or professional use, except when their use has been proven to be essential for society. Legacy pollution is safely remediated and pollutants are destroyed or irreversibly transformed into safe materials. By 2030, pollution resulting from heat, noise, light and vibration has been identified and reduced to prevent, or if prevention is not practicable, minimize any adverse impact on human health and the environment.'<sup>30</sup>
- BC9. The Sustainable Finance Disclosure Regulation (SFDR) draft Regulatory Technical Standards (RTS), published on February 2, provides an overview of ESG indicators applicable to investments in investee companies, applicable to investments in sovereigns and supranationals, and applicable to investments in real estate assets.<sup>31</sup> These indicators have been taken into account when developing the performance measures under the ESRS E2 Pollution.

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<sup>29</sup> [https://eur-lex.europa.eu/resource.html?uri=cellar:a1c34a56-b314-11eb-8aca-01aa75ed71a1.0001.02/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:a1c34a56-b314-11eb-8aca-01aa75ed71a1.0001.02/DOC_1&format=PDF), page 3

<sup>30</sup> Platform on Sustainable Finance: Technical Working Group, Taxonomy Pack for Feedback, August 2021, page 27-28

<sup>31</sup> Sustainable Finance Disclosure Regulation (SFDR) draft Regulatory Technical Standards (RTS), published on February 2, 2021, page 59-82

**Scope, subject to alignment with cross-cutting standards**

- BC10. The ESRS E2 Pollution and this Basis for Conclusions cover disclosure proposals applicable mainly to non-financial undertakings and to the value chain of financial undertakings.
- BC11. The ESRS E2 Pollution and this Basis for Conclusions cover disclosure proposals related to pollution of air, water, or soil, as already defined in EU existing legislation and policies. In addition, ESRS E2 Pollution and this Basis for Conclusion covers substances of concern including most harmful substances, as well as enabling activities, which are both still subject to formal legislative initiatives and definitions (EU Action Plan: 'Towards a Zero Pollution for Air, Water and Soil' (ZPAP); Chemicals strategy for sustainability; EU Taxonomy regarding Pollution Prevention and Control).
- BC12. The ESRS E2 Pollution and this Basis for Conclusions are closely aligned with developed cross-cutting standards.

*Financial consolidation considerations*

- BC13. The ESRS E2 Pollution undertakings reporting boundaries should extend at minimum to the financial consolidation reporting principles of that entity. This approach would be closely aligned with the GHG Protocol 'financial control' principle.
- BC14. Further, the reporting boundaries should incorporate those contemplated under the EU Taxonomy Article 8 Disclosure Requirements, Delegated Act, Annex 1, #1.2.3, i.e. it may include integral joint ventures reported at equity, with the reporting data referring to the entities' pro-rata share in these joint ventures. These considerations will be further aligned with ESRS 1.

*Value chain considerations*

- BC15. Based on the ESG1 Guidelines on Double Materiality, Materiality of a sustainability topic should be assessed over the whole value chain and over all time horizons<sup>32</sup>. This may thus extend the required disclosures beyond the scope of the undertaking's consolidated financial reporting.
- BC16. In alignment with the Substantial Contribution proposals from the EU Taxonomy draft on Pollution Prevention and Control, the ESRS shall address direct pollution, as well as pollution from the design of products, e.g., from the use phase, from the end-of-life phase, and upstream emissions of products, if relevant. In case of overlaps, however, specific Disclosure Requirements will rather be addressed for the latter through ESRS E5 Circular economy.

**Structure of the ESRS E2 Pollution**

- BC17. The Platform on Sustainable Finance has defined criteria for prioritization of sectors that shall be addressed first through the EU Taxonomy for Pollution Prevention and Control. In an approach to seek alignment with the EU Taxonomy, ESRS E2 Pollution shall gravitate towards that same structure, although the EU Taxonomy for Pollution Prevention and Control has not been approved yet<sup>33</sup>. It is important to state that below figure from August 2021 shall rather describe the structure that will be followed by ESRS E2 Pollution, while the exact indicators to be reported shall still be subject to appropriate materiality analysis and might thus deviate from the representation below.

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<sup>32</sup> Guideline 4: Value Chain and time horizons.

<sup>33</sup> Source: Platform on Sustainable Finance: Technical Working Group, Taxonomy pack for feedback August 2021, p. 77

BC18. PSF 'Indicators used to establish priority activities'

Indicators	
Pollution of air	SOx (sulphur oxides)
	NOx (nitrogen oxides)
	CO (carbon monoxide)
	PM (particulate matter)
	Heavy metals
	POPs (persistent organic pollutants)
	VOCs (volatile organic compounds)
	ODS (ozone depleting substances)
	NH3 (ammonia)
	Other (hazardous) chemicals regulated by REACH and CLP and their compounds (e.g. SVHC, chlorine, fluorine, bromine, iodine, asbestos, cyanides, other CMRs, PBTs, EDCs)
Other physical pollutants (heat, noise, light, radiation, odour)	
Pollution of water	Oxygen demanding pollutants and nutrients (bio-degradable organic compounds in suspended, colloidal, or dissolved form)
	Synthetic organic compounds (pesticides, detergents, food additives, pharmaceuticals, insecticides, paints, fibres, PCBs, solvents, PAHs, and VOCs.)
	Oil
	Pathogens (viruses, bacteria)
	Inorganic pollutants (heavy metals, mineral acids, inorganic salts, other metals, complexes of metals with organic compounds, cyanides, sulphates, etc.)
	Microplastics and plastic particles
Pollution of soil	Inorganic pollutants
	Organic compounds, including POPs, pesticides, pharmaceuticals and antibiotics
	Nitrogen and phosphorous compounds
	Other (physical) pollutants (vibrations, microplastics and plastic particles)

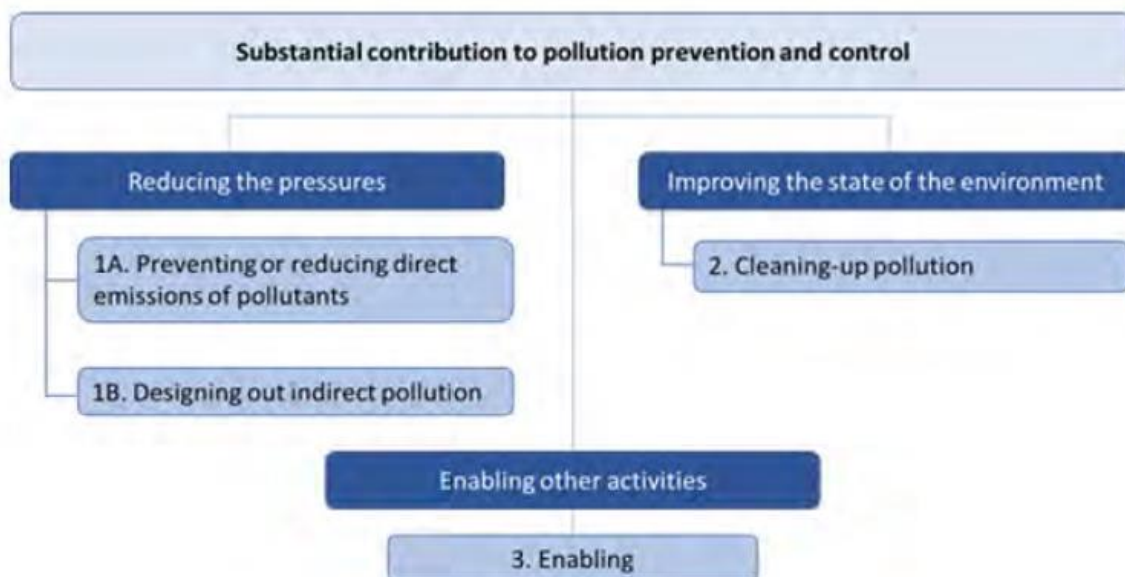
BC19. In addition, the Taxonomy proposal published on August 3, 2021, stipulates the following possible Substantial Contribution aspects for Pollution Prevention and Control enabling activities<sup>34</sup>:

- (a) 'SC 1A: preventing or, where that is not practicable, reducing direct emissions of pollutants to air, water and land. Activities with high direct pollution emissions (in sectors such as agriculture, transport, manufacturing, etc.) can reduce the pressure they directly exert on the environment compared to the baseline.
- (b) SC 1B: designing out indirect pollution. Activities manufacturing products or providing services with high emissions over their life-cycle can reduce the overall pressure exerted on the environment by designing the product or service in such a way that reduces or eliminates these emissions. This includes:
  - (i) emission from the use phase (for instance, considering a car manufacturing activity tackling and minimizing the emissions of its cars during use phase);
  - (ii) emissions from the end-of-life phase (for instance, a battery manufacturer reducing potential environmental impacts of the end-of-life product or ensuring safe recovery)
  - (iii) upstream emissions if relevant (an activity selecting materials or components that have lower emissions during the extraction or production phase).
- (c) SC 2: cleaning up pollution. Activities performing remediation may directly improve the state of the environment. For instance, the remediation of a former industrial site where land is polluted with chemicals or technologies cleaning litter pollution from the ocean.



- (d) SC 3: enabling any of the activities above. An activity, for instance, providing solutions to measure or abate pollutants' emissions (e.g. manufacturing of NOx filters).'

BC20. PSF 'types of substantial contribution to pollution prevention and control



BC21. In alignment with the draft approach of the EU Taxonomy regarding Substantial Contribution to Pollution Prevention and Control, ESRS E2 Pollution shall address both the reduction of pressures, i.e. pollution itself, as well as enabling activities for pollution prevention and controls (e.g. products and services). Cleaning-up pollution, where not considered a sector-specific activity, will also be included in the ESRS E2 Pollution.

BC22. However, as additional structures, overarching Pollution prevention & control topics – e.g. pollutants affecting both air, water, and soil –, topics regarding substances of concern as well as enabling activities will be covered through the ESRS E2 Pollution. Therefore, the ESRS E2 Pollution will ultimately be structured as follows:

BC23. This structure also ties into the structure of the SFDR draft Regulatory Technical Standards (RTS) as well as into the policy areas addressed by the Zero Pollution Action Plan (ZPAP), as displayed in the following table:

WORKING PAPER

Proposed structure of the ESRS E2 Pollution	Matching 'Adverse sustainability indicator' from the SFDR draft Regulatory Technical Standards (RTS) <sup>35</sup>	Policy areas addressed by the Zero Pollution Action Plan (ZPAP) <sup>36</sup>
Pollution of air	Emissions of inorganic pollutants Emissions of air pollutants Emissions of ozone depletion substances	Air: EU action to improve air quality and reduce air pollution.
Pollution of water	Emissions, effluents, and other entries into water	Water: EU action on water issues, to protect water resources.
Pollution of soil		Soil and land: EU action for the sustainable use of soil and land.
Substances of concern	Hazardous waste ratio	Industrial emissions: EU action to make industry more sustainable and reduce industrial emissions. Chemicals: EU Chemical Strategy to ensure chemicals are safe, for health and the environment. Noise: EU action to reduce environmental noise pollution. Plastics: EU action on plastic production and pollution to contribute to a circular economy.
Enabling activities		

<sup>35</sup> Source: European Supervisory Authorities (ESAs), Final Report on draft Regulatory Technical Standards, Feb 4, 2021, pages 59-82, including "Additional climate and other environment-related indicators"

<sup>36</sup> EU Action Plan: 'Towards a Zero Pollution for Air, Water and Soil', [https://ec.europa.eu/environment/strategy/zero-pollution-action-plan\\_en#ecl-inpage-211](https://ec.europa.eu/environment/strategy/zero-pollution-action-plan_en#ecl-inpage-211)

## **Specific disclosure requirements**

### **Additional Pollution Disclosure on Strategy**

#### ***Business Strategy and Pollution***

*Why disclosing on Business Strategy and Pollution?*

##### EU Legislation and recommendations

BC24. As stated in Article 19a of the proposed Corporate Sustainability Reporting Directive (CSRD), undertakings shall report on the following elements:<sup>37</sup>

BC25. 'The information [...] shall contain in particular:

- (a) a brief description of the undertaking's business model and strategy, including:
  - (i) the resilience of the undertaking's business model and strategy to risks related to sustainability matters;
  - (ii) the opportunities for the undertaking related to sustainability matters;
  - (iii) the plans of the undertaking 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;
  - (iv) how the undertaking's business model and strategy take account of the interests of the undertaking's stakeholders and of the impacts of the undertaking on sustainability matters;
  - (v) how the undertaking's strategy has been implemented with regard to sustainability matters;

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<sup>37</sup> 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, p. 42-43

- BC26. Also, as stated in the EU Zero Pollution Action Plan, ‘the EU has set itself the target of achieving climate neutrality by 2050 and has embraced with renewed determination the need to move towards a clean and circular economic model based on restored and healthy natural ecosystems, a halt to any further biodiversity loss and a healthy, toxic-free environment for all its citizens. It sets out the vision of a pollution-free world and combines all the ongoing and planned efforts in an integrated strategy that puts pollution prevention first.’
- BC27. The European Green Deal set the ambition of achieving zero pollution target by 2050, so that we could all live in a toxic-free environment. It highlights a ‘need to rethink the way goods and services are designed, produced, delivered, performed and/or used and disposed of’.
- BC28. The Technical Working Group of the Platform on Sustainable Finance (PSF), as published on August 3, 2021, proposes that ‘by 2030, pollution sources, sinks and pathways due to human activities have been fully identified and measures have been applied that prevent and eliminate pollution across air, water, soil, living organisms and food resources. By 2030, the production and use of substances, materials and products is safe and taxonomy-aligned. Legacy pollution is safely remediated and pollutants are destroyed or irreversibly transformed into safe materials. By 2030, pollution resulting from heat, noise, light and vibration has been identified and reduced to prevent, or if prevention is not practicable, minimize any adverse impact on human health and the environment’<sup>38</sup>).
- BC29. Also, as stated in the EU Zero Pollution Action Plan, ‘the EU has set itself the target of achieving climate neutrality by 2050 and has embraced with renewed determination the need to move towards a clean and circular economic model based on restored and healthy natural ecosystems, a halt to any further biodiversity loss and a healthy, toxic-free environment for all its citizens. It sets out the vision of a pollution-free world and combines all the ongoing and planned efforts in an integrated strategy that puts pollution prevention first.’
- BC30. The European Green Deal set the ambition of achieving zero pollution target by 2050, so that we could all live in a toxic-free environment. It highlights a ‘need to rethink the way goods and services are designed, produced, delivered, performed and/or used and disposed of’.

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<sup>38</sup> Source: Platform on Sustainable Finance: Technical Working Group, Taxonomy pack for feedback August 2021, p. 27-29

Global reporting frameworks

- BC31. As stated above, the ESRS seeks an appropriate compatibility with other international initiatives. Thus, the following international initiatives have been considered for the development of the ESRS E2 Pollution:
- BC32. Global Reporting Initiative (GRI): GRI does not provide a reporting standard on pollution. Therefore, the ESRS E2 Pollution has mainly considered the emissions' related GRI standards 305-6 (Emissions of ozone-depleting substances (ODS)) and 305-7 (Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions).
- BC33. The proposed performance measures have been aligned with those of the Sustainability Accounting Standards Board (SASB), based on the KPIs considered for sector-specific standards.
- BC34. The 'WEF metrics' (World Economic Forum, 'Measuring Stakeholder Capitalism, Towards Common Metrics and Consistent Reporting of Sustainable Value Creation', White Paper, September 2020) have been considered, although they themselves – for Pollution – refer to the GRI standard 305-7 and the 'Natural Capital Protocol'.
- BC35. The ISO Standard 14008:2019, covering the monetary valuation of environmental impacts and related environmental aspects, as well as other pollution and air quality ISO standards have been considered.
- BC36. Sustainable Development Goals (SDGs): There is not a specific SDG on Pollution. However, certain SDGs rely on adequate Pollution Prevention and Control in order to achieve their respective targets. Therefore, the ESRS E2 Pollution shall also be seen in support of these SDGs: 3 – Good health & wellbeing, 6 – Clean water and sanitation, 12 – Responsible consumption and production, 14 – Oceans, 15 – Life on land.
- BC37. Ultimately, through the alignment across standards in the PTF-ESRS, some proposals were inspired by climate change, which refer to TCFD regulations, in line with respective recommendations from the CSRD proposal.

Conclusions

- BC38. The ESRS should support the Zero Pollution Action Plan through requiring undertakings to consider how to adapt their business strategy to align with this goal and mandating disclosure on how this is being achieved.
- BC39. Cross-Cutting Standards are being developed on the reporting areas 'Strategy' and 'Implementation'. The draft proposals in this document are limited to additional Pollution Prevention and Control-related disclosures.

*What to Disclose?*

Proposed Disclosure of Business Strategy and Pollution

- BC40. Every undertaking for which this topic is material should describe its strategy and contribution to the Pollution Prevention and Control objectives of the EU, how the Zero Pollution Action Plan will affect its current business model and how its requirements will be implemented.
- BC41. The undertaking, through disclosure on its own operations and its value chain strategy, should describe how its current business model and strategy cause and drive pollution-related direct, indirect, and cumulative impacts. This shall include pollution to air, water and soil, the proliferation of substances of concern, as well as enabling activities in support of pollution prevention and control.
- BC42. The undertaking should also describe the resilience of its current model and strategy to risks related to pollution, as well as to pollution prevention and control, both in terms of physical and transition risks, in alignment with the EU Zero Pollution Action Plan.
- BC43. As a result of the resilience analysis above mentioned, the undertaking should describe the short-, medium- and long-term implications on its business model and strategy, both for its own operations and its value chain strategy.
- BC44. The undertaking should also describe where in the value chain pollution-related risks are concentrated, including an identification of key resources and processes of the undertaking these risks relate to.

Pollution of air, water, and soil

- BC45. The undertaking shall describe how its business model enables the targets for pollution prevention and control according to the EU Zero Pollution Action Plan 'Towards Zero Pollution for Air, Water and Soil', in particular with regard to making the Substantial Contribution to the respective targets that will still be developed for the EU Taxonomy Regulation's objectives for pollution prevention and control.

Substances of concern

- BC46. The undertaking shall describe how it will be impacted by and contribute to the targets set in the 'EU's Chemical Strategy for Sustainability towards a toxic free environment', published on October 14, 2020. This strategy aims to better protect citizens and the environment and boost innovation for safe and sustainable chemicals.
- BC47. In this view, the undertaking should describe how substances of concern are minimised and, as far as possible, substituted and that the most harmful ones for non-essential societal use are phased out, in particular in consumers' products.
- BC48. Moreover, where substances of concern are still being used, the undertaking should describe how their use, presence in products, articles and quantities will be tracked to ensure adequate risk management throughout their life-cycle.

Enabling activities

- BC49. The EU Zero Pollution Action Plan (ZPAP) describes the 'zero pollution hierarchy: Alongside efforts to achieve climate neutrality, the EU needs a more effective 'zero pollution hierarchy' [...] taking into account principles enshrined in the Treaty: notably, that EU environmental policies should be based on the precautionary principle and on the principles that preventive action should be taken, that environmental damage should, as a priority, be rectified at source and that the polluter should pay.'
- BC50. The ZPAP concludes: 'It is high time to 'reverse the pyramid' of action and rethink the way goods and services are designed, produced, delivered, performed and/or used and disposed of. This means that, first of all, pollution should be prevented at the source. Where fully preventing pollution from the outset is not (yet) possible, pollution should be minimised. Finally, when pollution occurred, it should be remediated – and the related damage compensated.'<sup>39</sup>

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<sup>39</sup> [https://eur-lex.europa.eu/resource.html?uri=cellar:a1c34a56-b314-11eb-8aca-01aa75ed71a1.0001.02/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:a1c34a56-b314-11eb-8aca-01aa75ed71a1.0001.02/DOC_1&format=PDF), page 4

BC51. This underlines the importance of preventing pollution at the source, thus enabling Pollution Prevention and Control. In addition to the ZPAP emphasis on enabling activities, the upcoming EU Taxonomy regulations with regard to activities that make a Substantial Contribution to Pollution Prevention and Control will need to be considered when defining the disclosure requirements of enabling activities under the ESRS E2 Pollution.

### **Pollution Impacts, Risks & Opportunities**

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*Why disclose on Pollution and Pollution Impacts, Risks & Opportunities?*

#### EU Legislation and recommendations

BC52. As stated in Article 19a of the proposed Corporate Sustainability Reporting Directive (CSRD), undertakings shall report on the following elements:<sup>40</sup>

BC53. 'The information [...] shall contain in particular:

- (a) a brief description of the undertaking's business model and strategy, including:
  - (i) the resilience of the undertaking's business model and strategy to risks related to sustainability matters;
  - (ii) the opportunities for the undertaking related to sustainability matters;
  - (iii) the plans of the undertaking 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;
  - (iv) how the undertaking's business model and strategy take account of the interests of the undertaking's stakeholders and of the impacts of the undertaking on sustainability matters;
  - (v) how the undertaking's strategy has been implemented with regard to sustainability matters;

[...]
- (e) a description of:
  - (i) the due diligence process implemented with regard to sustainability matters;
  - (ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;
  - (iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;

[...]

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<sup>40</sup> 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, p. 42-43

- (f) a description of the principal risks to the undertaking related to sustainability matters, including the undertaking's principal dependencies on such matters, and how the undertaking manages those risks'.

BC54. In addition, as stated in the Zero Pollution Action Plan 'At the same time, we need a better integrated overview of pollution for public and private actors to tackle connected pollution issues across space and time and address their interplay with other environmental, social, and economic considerations as effectively as possible in their policy, investment and purchase decisions. Most Europeans support action against pollution: protecting the environment is cited as very important and pollution as the most important environmental problem after climate change.'

BC55. In this context, it will be crucial for the undertakings to describe to which extent the EU Action Plan will impact their current business model, and which risks and opportunities there might arise. At the same time, considering the public interest in pollution, it will be crucial to describe the impact that the undertaking has on pollution.

#### Global reporting frameworks

BC56. There are several international frameworks that provide insight into determining the impact from companies regarding pollution:

BC57. The ISO Standard 14008:2019 addresses the monetary valuation of environmental impacts and related environmental aspects.

BC58. The 'Natural Capital Protocol' provides a standardized framework for the identification, measurement, and valuation of impacts and dependencies on natural capital.

BC59. Ultimately, through the alignment across standards in the PTF-ESRS, adaptations were also made from the Climate change standard, which refer to TCFD regulations, in line with respective recommendations from the CSRD proposal.

#### Users' needs

BC60. The undertaking should disclose on pollution and pollution impacts, risks, and opportunities in relation to users' needs to identify potential and actual impacts of pollution on environment and people connected with the concerned business.

#### Conclusions

##### *What to Disclose?*

BC61. In line with ESRS 4 Sustainability material impacts, risks and opportunities, the undertaking shall disclose the due diligence processes used to identify actual and potential impacts on pollution, from pollution and from pollution prevention and control connected with the undertaking's business, performance, position and development, including the extent to which these involve:

- (f) reviewing the undertaking's own activities and its business relationships;
- (g) assessing the context in which it operates;
- (h) taking into consideration scientific and analytical research on impacts on pollution;
- (i) engaging with internal and external experts;
- (j) engaging with stakeholders to understand the ways in which they may be impacted;
- (k) assessing both impacts the undertaking may cause or contribute to through its own actions and decisions, and impacts that may be directly linked to its operations, products, or services by business relationships;
- (l) assessing the capacity of the undertaking to continue:
  - (i) using the resources needed in its productive processes;
  - (ii) relying on relationships needed in their productive processes in the same terms as presently done or whether the undertaking's practices may trigger any adverse reaction;
  - (iii) influencing the natural and social capital in order to be able to pursue its own sustainability and financial goals.



- BC62. The undertaking shall describe how it has determined which impacts, risks and opportunities related to pollution and pollution prevention & control are material, including:
- (a) how it has prioritized the material potential and actual, negative impacts on the environment and people identified through its due diligence processes, including how the prioritisation of negative impacts reflects their relative severity and likelihood, where severity is defined by their scale (how grave they are), scope (how widespread they are) and remediability (how difficult it would be to put them right);
  - (b) how it has prioritized its material positive impacts on sustainability matters, including how the prioritisation of positive impacts reflects their relative scale (how positive/beneficial they are for people or the environment) and scope (how widespread the benefits are).
- BC63. The undertaking shall:
- (a) list and describe material topics, including a description of the underlying actual and potential negative and positive impacts on the economy, environment, and people with regard to pollution and pollution prevention & control.
  - (b) report changes to the list of material topics compared to the previous reporting period.
- BC64. The undertaking shall describe how processes for identifying, assessing, and managing impacts, risks and opportunities related to pollution and pollution prevention & control are integrated into its overall risk management, management system and strategy definition. Describe how risks and opportunities related to pollution and to pollution prevention & control serve as an input to management's strategy and decision making.
- BC65. The undertaking shall describe risks and opportunities related to pollution and pollution prevention & control by categories within its operations and along its value chain (transition risks and opportunities (regulatory, market, financial), physical risks, ecological risks, liability risks, other risks and opportunities including reputational, financing and supply chain, including enabling activities). Moreover, it shall also describe its knowledge of its suppliers' pollution related dependencies and impacts.

## Pollution Governance

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### *Why disclosing on Pollution Governance?*

#### EU Legislation and recommendations

- BC66. As stated in Article 19a of the proposed Corporate Sustainability Reporting Directive (CSRD), undertakings shall report on the following elements:<sup>41</sup>
- BC67. 'The information [...] shall contain in particular:
- (a) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters;
  - (b) a description of:
    - (i) the due diligence process implemented with regard to sustainability matters;
    - (ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;
    - (iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
- BC68. Thus, the undertaking shall describe its governance structures to enable the implementation of its targets for Pollution Prevention and Control. This shall ensure that the Governance approach towards Pollution Prevention and Control are made transparent, and that specific considerations towards Pollution Prevention and Control are made transparent. Such disclosure shall happen in conjunction with the requirements of ESRS3 Governance and organisation.

#### Global reporting frameworks

- BC69. The Governance aspects for Pollution Prevention and Control have been strongly aligned with the recommendations on Climate change and the other environmental topics, all of them adapting the key concepts from TCFD.

### *What to Disclose?*

- BC70. Considering that the ESRS3 Governance and organisation contains the overall content for reporting on sustainability governance within an undertaking, the proposals on Pollution are limited to additional Pollution Prevention and Control-related requirements.
- BC71. The undertaking shall describe how and to whom the responsibility is assigned to ensure compliance with regulations regarding pollution prevention and control including performance measurement.
- BC72. The undertaking shall describe how the undertaking seeks to prevent unintended pollution, including any dedicated resources, monitoring programs and initiatives. This disclosure shall include a description of the methodology, how and according to which principles 'unintended pollution' is defined, including respective thresholds (amount of pollution; time period of unintended emissions; etc.).

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<sup>41</sup> 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, p. 42-43

## Pollution Disclosure on Implementation

### Pollution Policies and Targets

#### Why disclosing on Pollution Policies and Targets?

##### EU Legislation and recommendations

- BC73. As stated in Article 19a of the proposed Corporate Sustainability Reporting Directive (CSRD), undertakings shall report on the following elements:<sup>42</sup>
- BC74. 'The information [...] shall contain in particular:  
[...]
- (b) a description of the targets related to sustainability matters set by the undertaking and of the progress the undertaking has made towards achieving those targets;
  - (c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters;
  - (d) a description of the undertaking's policies in relation to sustainability matters;
  - (e) a description of:
    - (i) the due diligence process implemented with regard to sustainability matters;
    - (ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;
    - (iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
- BC75. In addition, the EU Zero Pollution Action Plan highlights the need for 'a better integrated overview of pollution for public and private actors to tackle connected pollution issues across space and time and address their interplay with other environmental, social and economic considerations as effectively as possible in their policy, investment and purchase decisions'.
- BC76. The Taxonomy proposal published on August 3, 2021, stipulates the following possible Substantial Contribution aspects for Pollution Prevention and Control<sup>43</sup>:
- (f) 'SC 1B: designing out indirect pollution. Activities manufacturing products or providing services with high emissions over their life-cycle can reduce the overall pressure exerted on the environment by designing the product or service in such a way that reduces or eliminates these emissions. This includes:
    - (ii) emission from the use phase (for instance, considering a car manufacturing activity tackling and minimizing the emissions of its cars during use phase);
    - (iii) emissions from the end-of-life phase (for instance, a battery manufacturer reducing potential environmental impacts of the end-of-life product or ensuring safe recovery)
    - (iv) upstream emissions if relevant (an activity selecting materials or components that have lower emissions during the extraction or production phase).
  - (g) SC 2: cleaning up pollution. Activities performing remediation may directly improve the state of the environment. For instance, the remediation of a former industrial site where land is polluted with chemicals or technologies cleaning litter pollution from the ocean.

<sup>42</sup> 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, p. 42-43

<sup>43</sup> Source: Platform on Sustainable Finance: Technical Working Group, Taxonomy pack for feedback August 2021, p. 51-52

- (h) SC 3: enabling any of the activities above. An activity, for instance, providing solutions to measure or abate pollutants' emissions (e.g. manufacturing of NOx filters).'

BC77. The proposed disclosure requirements on Policies and Targets for Pollution Prevention and Control have taken these legislative texts or proposals into account in order to derive recommendations for Pollution.

Global reporting frameworks

BC78. When elaborating the ESRS E2 Pollution, the GRI requirements were considered, and in particular Disclosure 103-2 on 'the management approach and its components', which are the following:

BC79. 'For each material topic, the reporting organization shall report the following information:

- (f) an explanation of how the organization manages the topic;
- (g) a statement of the purpose of the management approach;
- (h) a description of the following if the management approach includes that component:
  - (i) policies;
  - (ii) commitments;
  - (iii) goals and targets;
  - (iv) responsibilities
  - (v) resources;
  - (vi) grievance mechanism;
  - (vii) specific actions, such as processes, projects, programs and initiatives. [...]

BC80. When reporting on policies as specified in Disclosure 103-2-c-i, the reporting organization should provide an abstract, summary, or link to the publicly available policies that cover the topic, as well as the following information:

- (f) the range and location of entities covered by the policies;
- (g) an identification of the person or committee responsible for approving the policies;
- (h) any references the policies make to international standards and widely-recognized initiatives;
- (i) the date of issue and last review date of the policies.

BC81. When reporting on commitments as specified in Disclosure 103-2-c-ii, the reporting organization should provide a statement of intent to manage the impacts for the topic, or explain:

- (a) the organization's position towards the topic;
- (b) whether the commitment to manage the topic is based on regulatory compliance or extends beyond it;
- (c) compliance with international standards and widely-recognized initiatives related to the topic.

BC82. When reporting on goals and targets as specified in Disclosure 103-2-c-iii, the reporting organization should provide the following information:

- (a) the baseline and context for goals and targets;
- (b) the range and location of entities included in the goals and targets;
- (c) the expected result (quantitative or qualitative);
- (d) the expected timeline for achieving each goal and target;

- (e) whether goals and targets are mandatory (based on legislation) or voluntary. If they are mandatory, the organization should list the relevant legislation<sup>44</sup>
- BC83. In addition, the aspects on Policies and Targets for Pollution Prevention and Control have been strongly aligned with the recommendations on Climate change and the other environmental topics, all of them adapting the key concepts from TCFD.

### Conclusions

#### *What to Disclose?*

- BC84. Proposed disclosure of Pollution Policies and Targets in conjunction with ESRS5 Definitions for policies, targets, action plans and resources:
- BC85. The undertaking shall describe policy commitments related to pollution prevention & control, detailing their content, perimeter with regards to the value chain and how they are communicated to stakeholders, including business partners. Moreover, it shall describe how the policy commitments related to pollution prevention & control are implemented within its own operations and the value chain.
- BC86. The undertaking shall describe its approach to setting and monitoring targets related to pollution prevention & control, including respective commitments and/or goals and the status of progress towards meeting those targets and/or goals.
- BC87. When reporting on this target setting and monitoring approach, the undertaking shall describe the most relevant criteria and perimeters for setting the respective targets. These might be the organization, business unit, site/facility, brand/product/commodity/material, country, procurement-based, and they might be context specific, time bound, milestones, etc..
- BC88. The undertaking shall disclose which actions it takes to achieve the targets (see section on actions and resources) and how the business model and strategy support the achievement of the targets (see section on business model and strategy).

#### *Pollution of air, water, and soil*

- BC89. The undertaking shall disclose its targets, preferably in 5-years periods including set dates in 2030, in absolute terms and in intensity terms, covering:
- (f) pollution to air (quantities and intensity);
  - (g) pollution to water (quantities and intensity);
  - (h) pollution to soil (quantities and intensity);

#### *Substances of concern*

- BC90. The undertaking shall disclose its targets, preferably in 5-years periods including set dates in 2030, in absolute terms and in intensity terms, covering:
- (f) substances of concern: absolute turnover and share of total turnover; absolute raw material cost and share of total raw material cost;
  - (g) most harmful substances: absolute turnover and share of total turnover; absolute raw material cost and share of total raw material cost.

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<sup>44</sup> GRI 103: Management Approach 2016, p.8-9

## Pollution Actions Plans and Resources

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Why disclosing on Pollution Action Plans and Resources?

### EU Legislation and recommendations

BC91. As stated in Article 19a of the proposed Corporate Sustainability Reporting Directive (CSRD), undertakings shall report on the following elements:<sup>45</sup>

BC92. 'The information [...] shall contain in particular:

- (a) a brief description of the undertaking's business model and strategy, including:
  - (i) the resilience of the undertaking's business model and strategy to risks related to sustainability matters;
  - (ii) the opportunities for the undertaking related to sustainability matters;
  - (iii) the plans of the undertaking 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;
  - (iv) how the undertaking's business model and strategy take account of the interests of the undertaking's stakeholders and of the impacts of the undertaking on sustainability matters;
  - (v) how the undertaking's strategy has been implemented with regard to sustainability matters;

[...]

- (e) a description of:
  - (i) the due diligence process implemented with regard to sustainability matters;
  - (ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;
  - (iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts.'

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<sup>45</sup> 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, p. 42-43

- BC92. Also, the ESRS E2 Pollution has taken into consideration the headline level of ambition for the objectives Pollution Prevention and Control of the draft EU Taxonomy Regulation as elaborated by the Platform on Sustainable Finance. This headline level of ambition for Pollution Prevention and Control is based on the following rationale (subsequent text copied from the release of the PSF on August 3, 2021<sup>46</sup>):
- BC93. 'Legacy pollution is safely remediated and pollutants are destroyed or irreversibly transformed into safe materials. By 2030, pollution resulting from heat, noise, light, and vibration has been identified and reduced to prevent, or if prevention is not practicable, minimize any adverse impact on human health and the environment.'
- BC94. In the context of the EU Taxonomy Regulation, the Technical Working Group proposal published on August 3, 2021, stipulates the following possible Substantial Contribution aspects for Pollution Prevention and Control<sup>47</sup>:
- BC95. In the context of the EU Taxonomy Regulation, the Technical Working Group proposal published on August 3, 2021, stipulates the following possible Substantial Contribution aspects for Pollution Prevention and Control<sup>48</sup>:
- (a) 'SC 1A: preventing or, where that is not practicable, reducing direct emissions of pollutants to air, water and land. Activities with high direct pollution emissions (in sectors such as agriculture, transport, manufacturing, etc.) can reduce the pressure they directly exert on the environment compared to the baseline.
  - (b) SC 1B: designing out indirect pollution. Activities manufacturing products or providing services with high emissions over their life-cycle can reduce the overall pressure exerted on the environment by designing the product or service in such a way that reduces or eliminates these emissions. This includes:
    - emission from the use phase (for instance, considering a car manufacturing activity tackling and minimizing the emissions of its cars during use phase);
    - emissions from the end-of-life phase (for instance, a battery manufacturer reducing potential environmental impacts of the end-of-life product or ensuring safe recovery);
    - upstream emissions if relevant (an activity selecting materials or components that have lower emissions during the extraction or production phase).
  - (c) SC 2: cleaning up pollution. Activities performing remediation may directly improve the state of the environment. For instance, the remediation of a former industrial site where land is polluted with chemicals or technologies cleaning litter pollution from the ocean.
  - (d) SC 3: enabling any of the activities above. An activity, for instance, providing solutions to measure or abate pollutants' emissions (e.g. manufacturing of NOx filters).'

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<sup>46</sup> Source: Platform on Sustainable Finance: Technical Working Group, Taxonomy pack for feedback August 2021, p. 27-29

<sup>47</sup> Source: Platform on Sustainable Finance: Technical Working Group, Taxonomy pack for feedback August 2021, p. 51-52

<sup>48</sup> Source: Platform on Sustainable Finance: Technical Working Group, Taxonomy pack for feedback August 2021, p. 51-52

BC96. The EU Zero Pollution Action Plan adds the following aspects when it comes to action plans and resources: 'The growing demand for less polluting goods and services entails significant business opportunities, already mobilising EU companies towards innovative solutions'.

'...pollution should be prevented at the source. Where fully preventing pollution from the outset is not (yet) possible, pollution should be minimised. Finally, when pollution occurred, it should be remediated – and the related damage compensated.'<sup>49</sup>

Global reporting frameworks

BC97. When elaborating the ESRS E2 Pollution, the GRI requirements were considered, including Disclosure 103-2 on 'the management approach and its components', which are the following:

BC98. 'For each material topic, the reporting organization shall report the following information:

- (a) an explanation of how the organization manages the topic;
- (b) a statement of the purpose of the management approach;
- (c) a description of the following, if the management approach includes that component:
  - (i) policies;
  - (ii) commitments;
  - (iii) goals and targets;
  - (iv) responsibilities;
  - (v) resources;
  - (vi) grievance mechanisms;
  - (vii) specific actions, such as processes, projects, programs and initiatives. [...]

BC99. When reporting on resources as specified in Disclosure 103-2-c-v, the reporting organization should explain the resources allocated for managing the topic, such as financial, human or technological, as well as the rationale for the allocation. [...]

BC100. When reporting on specific actions as specified in Disclosure 103-2-c-vii, the reporting organization should explain:

- (a) the range of entities covered by each of the actions and their location;
- (b) whether the actions are ad hoc or systemic;
- (c) whether the actions are short, medium, or long-term;
- (d) how actions are prioritized;
- (e) whether the actions are part of a due diligence process and aim to avoid, mitigate, or remediate the negative impacts with respect to the topic;
- (f) whether actions take international norms or standards into account.<sup>50</sup>

<sup>49</sup> EU Action Plan: 'Towards a Zero Pollution for Air, Water and Soil', [https://ec.europa.eu/environment/strategy/zero-pollution-action-plan\\_en#ecl-inpage-211](https://ec.europa.eu/environment/strategy/zero-pollution-action-plan_en#ecl-inpage-211), p. 2+4

<sup>50</sup> GRI 103: Management Approach 2016, p.8-9



Users' needs

BC101. Action plans and resources are crucial to put an undertaking's strategy, policies and targets into practice. Therefore, users' have a clear need to learn about a undertaking's action plans and resources as validation that implementation of the strategy and the policies are truly happening.

Conclusions

*What to Disclose?*

BC102. The undertaking shall disclose whether there are economic activities - and if so, which ones - that do not meet the Do Not Significant Harm (DNSH) criteria for Pollution Prevention and Control when validating the Substantial Contribution (SC) to one of the other five environmental objectives listed in the EU Taxonomy Regulation.

BC103. The undertaking shall describe how (i.e. through which measures) and by when these DNSH shortfalls will be overcome and resolved.

BC104. The undertaking shall disclose which measures it takes to prevent, measure and report unintended pollution, e.g. through spills, leakages, etc.

BC105. Criteria for determining 'unintended pollution' shall be disclosed.

BC106. The undertaking shall disclose the number of occasions of unintended pollution, possibly split into categories that provide a better understanding of its impact, e.g. by geography, business activity, etc.

BC107. Moreover, the undertaking shall also provide:

- (a) a description of the major actions which are undertaken by the undertaking as part of its strategy to achieve its pollution prevention & control targets, or to address a risk or an opportunity, a dependency or an impact identified.
- (b) the time horizon for completing these actions. The time horizon should be consistent with the milestones or the target years.
- (c) the expected outcomes of these actions.
- (d) resources dedicated to these actions, which may be the R&D spend, CapEx, OpEx, FTE dedicated, IT related resources
- (e) how the action relates to its strategy, targets, policies and processes.

BC108. The undertaking shall provide details of pollution prevention & control related supplier and customer engagement activity, for example:

- (a) onboarding & compliance
- (b) incentivizing for improved pollution prevention & control, incl. stewardship
- (c) innovation
- (d) assessment of supplier performance against its own pollution prevention & control commitments
- (e) selection processes against its own pollution prevention & control commitments
- (f) training and collaboration

BC109. The undertaking shall describe its measurement processes for collecting data for pollution related accounting and reporting, the type of data needed, the information sources as well as the formal documentation typically connected to desired objectives, outcomes or outputs, such as those connected to targets and goals, the validation process and the verification process as well as the frequency of monitoring pollution prevention & control actions and reporting of pollution.

## Pollution Performance Measurement

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### Pollution Performance Measures

*Pollution performance measures: retrospective and forward-looking*

*Why disclosing on Pollution Performance Measures?*

#### EU Legislation and recommendations

BC110. As stated in Article 19a of the proposed Corporate Sustainability Reporting Directive (CSRD), undertakings shall report on the following elements:<sup>51</sup>

BC111. 'The information [...] shall contain in particular:

[...]

- (b) a description of the targets related to sustainability matters set by the undertaking and of the progress the undertaking has made towards achieving those targets;

[...]

- (g) indicators relevant to the disclosures referred to in points (a) to (f).

[...]

Undertakings shall report the process carried out to identify the information that they have included in the management report [...] and in this process they shall take account of short, medium and long-term horizons.

The information [...] shall contain forward-looking and retrospective information, and qualitative and quantitative information

Where appropriate, the information [...] shall contain information about the undertaking's value chain, including the undertaking's own operations, products and services, its business relationships and its supply chain.

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<sup>51</sup> 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, p. 42-43

- BC112. In addition, the EU Regulation 166/2006 concerning the establishment of a European Pollutant Release and Transfer Register (E-PRTR) provides another basis for concluding on performance measures, which non-financial undertakings shall disclose also under the ESRS. The E-PRTR shall represent 'a cost-effective tool for encouraging improvements in environmental performance, for providing public access to information on releases of pollutants and off-site transfers of pollutants and waste, and for use in tracking trends, demonstrating progress in pollution reduction, monitoring compliance with certain international agreements, setting priorities and evaluating progress achieved through Community and national environmental policies and programmes. [...] An integrated and coherent PRTR gives the public, industry, scientists, insurance companies, local authorities, non-governmental organisations and other decision-makers a solid database for comparisons and future decisions in environmental matters'<sup>52</sup>. The E-PRTR clearly defines Activities as well as Pollutants that are already today required to be disclosed under the E-PRTR Regulation.
- BC113. Forward-looking performance measures should be identical with the retrospective performance measures. This shall ensure traceability and comparability over time to measure progress not just compared to targets, but also compared to past performance.
- BC114. Defining meaningful data regarding pollution from the design of products, e.g., leading to pollution in the use phase, at the end-of-life phase, from upstream products, shall consider the 'COMMISSION RECOMMENDATION of 9 April 2013 on the use of common methods to measure and communicate the life cycle environmental performance of products and organisations'<sup>53</sup> and will be aligned closely with the upcoming EU Taxonomy regulations for Pollution Prevention and Control.

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<sup>52</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006R0166&from=EN>

<sup>53</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013H0179&from=EN>

Global reporting frameworks

- BC115. The ESRS seeks an appropriate compatibility with other international initiatives. Thus, the following international initiatives have been considered for the development of the ESRS E2 Pollution:
- BC116. Global Reporting Initiative (GRI): GRI does not provide a reporting standard on pollution. Therefore, the ESRS E2 Pollution has mainly considered the emissions' related GRI standards 305-6 (Emissions of ozone-depleting substances (ODS)) and 305-7 (Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions).
- BC117. The proposed performance measures have been aligned with those of the Sustainability Accounting Standards Board (SASB), based on the KPIs considered for sector-specific standards.
- BC118. The proposed performance measures have been aligned with those of the Sustainability Accounting Standards Board (SASB), based on the KPIs considered for sector-specific standards..
- BC119. The 'WEF metrics' (World Economic Forum, 'Measuring Stakeholder Capitalism, Towards Common Metrics and Consistent Reporting of Sustainable Value Creation', White Paper, September 2020) have been considered, although they themselves – for Pollution – refer to the GRI standard 305-7 and the 'Natural Capital Protocol'.
- BC120. The 'WEF metrics' add a relevant aspect to the reporting on Pollution: 'Companies have long understood that reporting simple output metrics (e.g. tonnes of air pollutants) is insufficient on its own, if the goal is to understand the actual impacts on the planet and society associated with these outputs. For example, the same volume of air pollution emissions will adversely affect the health of more people in a densely populated city than in a rural area. Simply reporting the pollution output would tell us relatively little about the true impacts of a business or the effectiveness of its efforts to reduce those impacts.'<sup>54</sup>
- BC121. In this context, the WHO Global Air Quality Guidelines 2021 (WHO AQGs)<sup>55</sup>:
- 'identify the levels of air quality necessary to protect public health worldwide';
  - 'provide recommendations on air quality guidelines levels (and interim targets) for PM<sub>2.5</sub> and PM<sub>10</sub>, O<sub>3</sub>, NO<sub>2</sub>, SO<sub>2</sub> and CO, and qualitative good practice statements for certain types of particulate matter'; and
  - 'Guideline levels can be used as an evidence-informed reference to help decision-makers in setting legally binding standards and goals for air quality management'.
- BC122. The EU Commission has undertaken steps to align more closely the EU's air quality standards with the WHO AQGs. As such, the WHO AQG indicators are a key reference in devising the ESRS indicators for pollution of air. The EU 'Zero Pollution Action Plan' notes that 'in 2022 the Commission will propose that the EU's air quality standards be aligned more closely with the upcoming WHO recommendations'.
- BC123. The WHO has released the following summary table of recommended AQG levels and interim targets.

Summary of recommended AQG levels and interim targets

Pollutant	Averaging time	IT1	IT2	IT3	IT4	AQG level
PM <sub>2.5</sub> , µg/m <sup>3</sup>	Annual	35	25	15	10	5
PM <sub>2.5</sub> , µg/m <sup>3</sup>	24-hour <sup>a</sup>	75	50	37.5	25	15
PM <sub>10</sub> , µg/m <sup>3</sup>	Annual	70	50	30	20	15
PM <sub>10</sub> , µg/m <sup>3</sup>	24-hour <sup>a</sup>	150	100	75	50	45
O <sub>3</sub> , µg/m <sup>3</sup>	Peak season <sup>b</sup>	100	70	–	–	60
O <sub>3</sub> , µg/m <sup>3</sup>	8-hour <sup>a</sup>	160	120	–	–	100
NO <sub>2</sub> , µg/m <sup>3</sup>	Annual	40	30	20	–	10
NO <sub>2</sub> , µg/m <sup>3</sup>	24-hour <sup>a</sup>	120	50	–	–	25
SO <sub>2</sub> , µg/m <sup>3</sup>	24-hour <sup>a</sup>	125	50	–	–	40
CO, mg/m <sup>3</sup>	24-hour <sup>a</sup>	7	–	–	–	4

BC124. Therefore, Pollution should not be reported on only in absolute or intensity terms but should also be reported on through contextual information. For the time being, and prior to clarifying the exact reporting needs, providing such contextual information is formulated as a 'may'-clause in the ESRS E2 Pollution. Further work will be required to define the practical feasibility of such contextual reporting.

#### Conclusions

##### *What to Disclose?*

Proposed Disclosure of Pollution of air, water, and soil

BC125. Based on the structure and the content of the headline ambition level of the EU Taxonomy proposal for Pollution Prevention and Control, based on the EU Taxonomy Regulation Art. 8 Disclosure Requirements, and aligned with the GRI standards 305-6 and 305-7, the undertaking shall:

- (a) disclose both absolute emissions levels, and adequate intensity metrics. Intensity metrics shall be based on suitable output factors of the undertaking (metric tons, kilogram, pieces, rented space...), which shall be kept constant over time;
- (b) disclose the source of pollution factors used, as well as standards, methodologies, assumptions and/or calculation tools used;
- (c) calculate pollution in the following order of priorities:
  - direct measurement of emissions, effluents;
  - calculation based on site-specific data;
  - calculation based on published pollution factors;
  - estimation.

BC126. If an inferior methodology compared to direct measurement of emissions is chosen or if estimations are used, justify it in a detailed manner.

BC127. Disclose financial indicators in line with EU Taxonomy disclosure requirements (Article 8) as applied to the objective of Pollution Prevention and Control.

BC128. The disclosure requirements from that proposal were compared with other frameworks and international initiatives, and confirms that the proposed disclosure requirements cover these other frameworks and initiatives:

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<sup>54</sup> World Economic Forum, "Measuring Stakeholder Capitalism, Towards Common Metrics and Consistent Reporting of Sustainable Value Creation", White Paper, September 2020, p. 26

<sup>55</sup> <https://ec.europa.eu/environment/air/quality/documents/20210923%20-%20AAQ%20Revision%20-%20Stakeholder%20Meeting%20-%20WHO%20AQ%20Guidelines.pdf>

Pollution Prevention and Control: performance measurement – comparison of coverage ESRS, GRI, SASB, WEF, OEF/EMAS

ESRS proposal	GRI (305)	SASB (C7 database)	WEF Metrics	OEF / EMAS
<b>Pollution of air</b>				
SOx (sulphur oxides)	X	X	X	X
NOx (nitrogen oxides)	X	X	X	X
CO (carbon monoxide)		X		X
PM (particulate matter)	X	X	X	X
Heavy metals		X (mercury (Hg), manganese (MnO), lead (Pb))		
POPs (persistent organic pollutants)	X		X	
VOCs (volatile organic compounds)	X	X	X	
ODS (ozone depleting substances)	X (production, imports, exports)			
NH3 (ammonia)				
Other (hazardous) chemicals regulated by REACH and CLP and their compounds (e.g. SVHC, chlorine, fluorine, bromine, iodine, asbestos, cyanides, other CMRs, PBTs, EDCs)	X	X (polycyclic aromatic hydrocarbons (PAHs), hazardous air pollutants (HAPs), hydrogen sulfide (H2S))	X	
Other physical pollutants (heat, noise, light, radiation, odour)				

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(a)

Pollution Prevention and Control: performance measurement – comparison of coverage ESRS, GRI, SASB, WEF, OEF/EMAS

ESRS proposal	GRI (305)	SASB (C7 database)	WEF Metrics	OEF / EMAS
<b>Pollution of water</b>				
Oxygen demanding pollutants and nutrients (bio-degradable organic compounds in suspended, colloidal, or dissolved form)				X (biochemical oxygen demand (BOD), chemical oxygen demand (COD))
Synthetic organic compounds (pesticides, detergents, food additives, pharmaceuticals, insecticides, paints, fibres, PCBs, solvents, PAHs, and VOCs)				
Oil				
Pathogens (viruses, bacteria)				
Inorganic pollutants (heavy metals, mineral acids, inorganic salts, other metals, complexes of metals with organic compounds, cyanides, sulphates, etc.)				
Microplastics and plastic particles				
Other physical pollutants (heat, radiation, light, noise/vibration, suspended solids and sediments)				

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(b)

Pollution Prevention and Control: performance measurement – comparison of coverage ESRS, GRI, SASB, WEF, OEF/EMAS

ESRS proposal	GRI (305)	SASB (C7 database)	WEF Metrics	OEF / EMAS
<b>Pollution of soil</b>				
Inorganic pollutants				
Organic compounds, including POPs, pesticides, pharmaceuticals and antibiotics				
Nitrogen and phosphorous compounds			X (Phosphorous total (Tot-P, Nitrogen total Tot-N))	X (Phosphorous total (Tot-P, Nitrogen total Tot-N))
Other (physical) pollutants (vibrations, microplastics and plastic particle)				

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(c)

*Proposed Disclosure of Substances of concern*

*Why disclose on substances of concern?*

EU Legislation and recommendations

- BC129. As already mentioned above, according to draft EU Taxonomy Regulation on Pollution Prevention and Control, 'two specific elements are singled out, substances of concern and most harmful substances. This reflects the most dangerous and most urgent series of pollutants to be addressed when considering action at an economic activity level. Substances of concern have intrinsic hazardous properties and are covered in the EU Chemical Strategy for Sustainability (now within the framework of ZPAP). Most harmful substances are a sub-group of Substances of Concern with the most serious negative effects to the environment, health and wildlife. Both require substantive actions focused on reduction in general, and phasing out from products.'<sup>56</sup>
- BC130. According to the report released by the Platform on Sustainable Finance on August 3, 2021, but not backed by formal EU legislation<sup>57</sup>:
- BC131. 'By 2030, substances of concern have been substituted and their production and use have been minimized, as far as possible. Where substances of concern are still being used, their use, presence in products and articles and quantities is being tracked to ensure adequate risk management throughout their life cycle.'
- BC132. The sub-group of the most harmful substances (incl. ozone depleting substances) are phased out from products for consumer or professional use, except when their use has been proven to be essential for society.'
- BC133. Nevertheless, considering these ambition levels, and pending final definition of substances and of timelines, KPIs for performance measurement were developed inspired by the EU Taxonomy Regulation Article 8 Disclosure Requirements:

Conclusions

*What to Disclose?*

Proposed Disclosure of Substances of Concern

<sup>56</sup> Source: Platform on Sustainable Finance: Technical Working Group, Taxonomy pack for feedback August 2021, p. 29

BC134. The undertaking shall:

- (a) Disclose the share of turnover, comprising both the turnover as per the scope of consolidation, as well as possibly the pro-rata share of turnover of Joints Ventures reported at equity, with products and services that contain – within their final sales products – (a) ‘substances of concern’ and (b) ‘most harmful substances’.
- (b) For ‘substances of concern’ and ‘most harmful substances’ (incl. ozone depleting substances), disclose the share – expressed at the respective cost of acquisition or cost of manufacturing – of these substances in the undertaking’s cost of sales.
- (c) For these disclosure requirements regarding ‘substances of concern’ and ‘most harmful substances’, the undertaking shall disclose its targets for 2025 and the key measures to achieve these targets.
- (d) Disclose risks and opportunities that might arise to its business model, to its operations and to its value chain when pursuing the following targets:
- (e) Substances of concern have been substituted and their production and use have been minimized, as far as possible. Where substances of concern are still being used, their use, presence in products and articles and quantities is being tracked to ensure adequate risk management throughout their life cycle.
- (f) The sub-group of the most harmful substances (incl. ozone depleting substances) are phased out from products for consumer or professional use, except when their use has been proven to be essential for society.

*Proposed Disclosure of Enabling activities*

*Why disclosing on Enabling Activities?*

Background

EU Legislation and recommendations

BC135. The Taxonomy proposal published on August 3, 2021, stipulates the following possible Substantial Contribution aspects for Pollution Prevention and Control enabling activities<sup>58</sup>:

- (a) ‘SC 1A: preventing or, where that is not practicable, reducing direct emissions of pollutants to air, water and land. Activities with high direct pollution emissions (in sectors such as agriculture, transport, manufacturing, etc.) can reduce the pressure they directly exert on the environment compared to the baseline.
- (b) SC 1B: designing out indirect pollution. Activities manufacturing products or providing services with high emissions over their life-cycle can reduce the overall pressure exerted on the environment by designing the product or service in such a way that reduces or eliminates these emissions. This includes:
  - (i) emission from the use phase (for instance, considering a car manufacturing activity tackling and minimizing the emissions of its cars during use phase);
  - (ii) emissions from the end-of-life phase (for instance, a battery manufacturer reducing potential environmental impacts of the end-of-life product or ensuring safe recovery)
  - (iii) upstream emissions if relevant (an activity selecting materials or components that have lower emissions during the extraction or production phase).
- (c) SC 2: cleaning up pollution. Activities performing remediation may directly improve the state of the environment. For instance, the remediation of a former industrial site where land is polluted with chemicals or technologies cleaning litter pollution from the ocean.

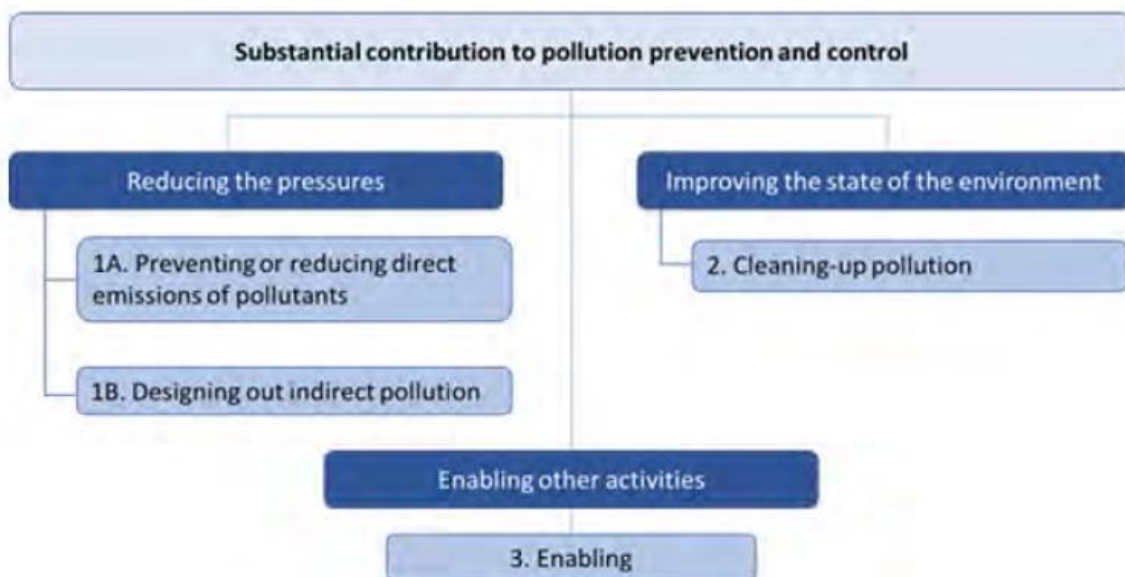
<sup>57</sup> Source: Platform on Sustainable Finance: Technical Working Group, Taxonomy pack for feedback August 2021, p. 27-28

<sup>58</sup> Source: Platform on Sustainable Finance: Technical Working Group, Taxonomy pack for feedback August 2021, p. 51-52



- (d) SC 3: enabling any of the activities above. An activity, for instance, providing solutions to measure or abate pollutants' emissions (e.g. manufacturing of NOx filters).'

BC136. PSF 'types of substantial contribution to pollution prevention and control:



BC137. Thus, in order to avoid a pure reporting of pressures from Pollution, reporting on Pollution Presentation and Control should also consider Enabling activities, and that those should be reported in line with the upcoming EU Taxonomy regulations for Pollution Prevention and Control, as well as with the disclosure requirements of Art. 8 of the EU Taxonomy regulation<sup>59</sup>.

### Conclusions

#### *What to Disclose?*

##### Proposed Disclosure on Enabling Activities

BC138. Based on the EU Taxonomy Regulation Article 8 Disclosure Requirements:

BC139. The disclosure requirements for enabling activities shall follow those of the EU Taxonomy regarding both the 'substantial contribution' towards Pollution Prevention and Control and activities that enable other activities to make such 'Substantial Contribution'.

BC140. Beyond the disclosure requirements and boundaries of the EU Taxonomy for Pollution Prevention and Control, no further or different requirements and boundaries shall be defined through ESRS.

<sup>59</sup> 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, Article 8

## Sustainability and financial impacts and exposures to incidents

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### *Why disclosing on Connectivity with Financial Reporting?*

- BC141. In its final report from February 2021, the European Lab Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards (PTF-NFRS) highlighted the following need for stronger connectivity between financial reporting and sustainability reporting:
- BC142. 'Connectivity. All dimensions of corporate reporting need to be interconnected under an integrated approach. Sustainability reporting and financial reporting are currently not formally connected, leaving potential gaps, overlaps and a lack of coherence. If sustainability reporting and financial reporting are to be placed on an equal footing under an identical timing requirement, connectivity becomes essential. The standards-setter should adopt guidelines to ensure continuity both ways:
- (a) sustainability reporting standards should define anchor points to create connectivity to financial reporting together with the necessary reconciliations or cross-references. Anchor points may be direct when a monetary sustainability disclosure is derived from accounting data, and they may be indirect when sustainability disclosures simply need to be coherent with financial disclosures;
  - (b) conversely, financial reporting standards should consider anchor points from sustainability reporting, for instance when financial accounting standards require forward-looking estimates or risk disclosures.
- BC143. Financial reporting standard-setters and sustainability reporting standard-setters should cooperate to ensure the continuity and coherence of corporate reporting.<sup>60</sup>
- BC144. In this regard, and in line with guidance from cross-cutting standards considerations, direct and indirect connectivity with financial reporting will be highlighted in each relevant disclosure requirement of the ESRS E2 Pollution. In addition, the following requirements for disclosure to create additional connectivity with financial reporting were defined.

### Conclusions

#### *What to Disclose?*

##### Proposed Disclosure about actual impacts on Financial Reporting

- BC145. The undertaking shall:
- (a) disclose major incidents, based on double-materiality assessments, whereby pollution had negative effects on the environment, or on the undertaking's financial performance in the past reporting year, e.g. through interruptions of production and/or in supply chain as a result of pollution, or pollution prevention and control measures;
  - (b) disclose the amount of cases of unintended pollution in absolute terms of events occurred, and major environmental and societal impacts shall be described, based on a respective materiality assessment.
  - (c) disclose the estimated amount of turnover lost as a consequence of the incidents described above.
  - (d) disclose the monetary costs incurred relating to pollution.

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<sup>60</sup> European Reporting Lab @ EFRAG, FINAL REPORT PROPOSALS FOR A RELEVANT AND DYNAMIC EU SUSTAINABILITY REPORTING STANDARD SETTING, February 2021, page 8