

# Educational session on draft ESRS E4 Biodiversity and Ecosystems

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## Overview

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- Objective of the Draft Standard and Overview
- Deep dive on Disclosure Requirements
- Questions

# Objective and Overview

## Objective of ESRS E4

- Specify Disclosure Requirements (DR) which will enable users of sustainability reporting to understand:

A. How the undertaking affects biodiversity and ecosystems, in terms of positive and negative material actual and potential impacts.

B. Actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts and to protect and restore biodiversity and ecosystems.

C. The plans and capacity of the undertaking to adapt its business model and operations in line with international frameworks and strategies.

D. The nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts and dependencies on biodiversity and ecosystems, and how the undertaking manages them.

E. The financial effects on the undertaking over the short-, medium- and long-term time horizons of material risks and opportunities arising from the undertaking's impacts and dependencies on biodiversity and ecosystems.

# Content of ESRS E4

## ESRS 2 GENERAL DISCLOSURES

DR E4-1: **Transition plan on biodiversity and ecosystems** CSRD

DR related to [draft] ESRS 2 SBM-3: Material impacts, risks and opportunities and their interaction with strategy and **business model(s)** CSRD

DR related to ESRS 2 IRO-1: Description of processes to identify and assess material biodiversity and ecosystem-related **impacts, risks and opportunities** CSRD SFDR

## IMPACT, RISK AND OPPORTUNITY MANAGEMENT

DR E4-2: **Policies** related to biodiversity and ecosystems CSRD

DR E4-3: **Actions and resources** related to biodiversity and ecosystems CSRD

## METRICS AND TARGETS

DR E4-4: **Targets** related to biodiversity and ecosystems CSRD

DR E4-5: **Impact metrics** related to biodiversity and ecosystems change CSRD

DR E4-6: Potential **financial effects** from biodiversity and ecosystem-related impacts, risks and opportunities CSRD

# Deep Dive on Disclosure Requirements

## ESRS 2 General disclosures

### DR E4-1 – Transition plan on biodiversity and ecosystems

- The undertaking shall disclose:

Its plans for its own operations and throughout its upstream and downstream value chain.

How its business development strategy interacts with the achievability of its transition plan.

Its contribution to impact drivers and its possible mitigation actions following the mitigation hierarchy and the main path-dependencies and locked-in assets and resources that are associated with biodiversity and ecosystems change.

Explain whether or not biodiversity offsets are part of the transition plan. And if so, where the offsets are planned to be used, the extent of use in relation to the overall transition plan, and whether the mitigation hierarchy was considered.

The level of approval to which the Transition Plan is subjected.

How the process of implementing and updating the transition plan is managed.

Metrics and related tools used to measure progress.

Current challenges and limitations to draft a plan in relation to areas of significant impact and actions the company is taking to address them.

## ESRS 2 General disclosures

### DR E4-1 – Transition plan on biodiversity and ecosystems

#### Mandatory for priority sectors identified by TNFD

- Agriculture & Farming Forestry;
- Construction & Engineering;
- Oil & Gas from Midstream and Downstream;
- Energy Production and Utilities;
- Water & Waste Services;
- Food & Beverages;
- Paper & Wood Products;
- Building materials;
- Chemical products;
- Coal Mining;
- Mining;
- Oil & Gas Upstream & Services;
- Pharma;
- Biotechnology;
- Textiles;
- Accessories;
- Footwear & Jewelleries;
- Tobacco;
- Transportation

#### If the undertaking did not adopt a plan:

- Need to provide an explanation of its biodiversity and ecosystems-related ambition.
- Need to report whether and when it will adopt a transition plan.



## ESRS 2 General disclosures

DR related to [draft] ESRS 2 SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model(s)

- The description of the integration of material IROs\* in the business model should include:

An **assessment** of the resilience of the current business model(s) and strategy to biodiversity and ecosystems-related physical and transition risks.

The **scope** of the resilience analysis, (i) along the **own operations** and **related upstream and downstream value chain** and (ii) the **material transition and physical biodiversity and ecosystems-related risks** covered.

The **key assumptions** made.

The **time horizon** over which the analysis has been conducted.

The **results** of the resilience analysis.

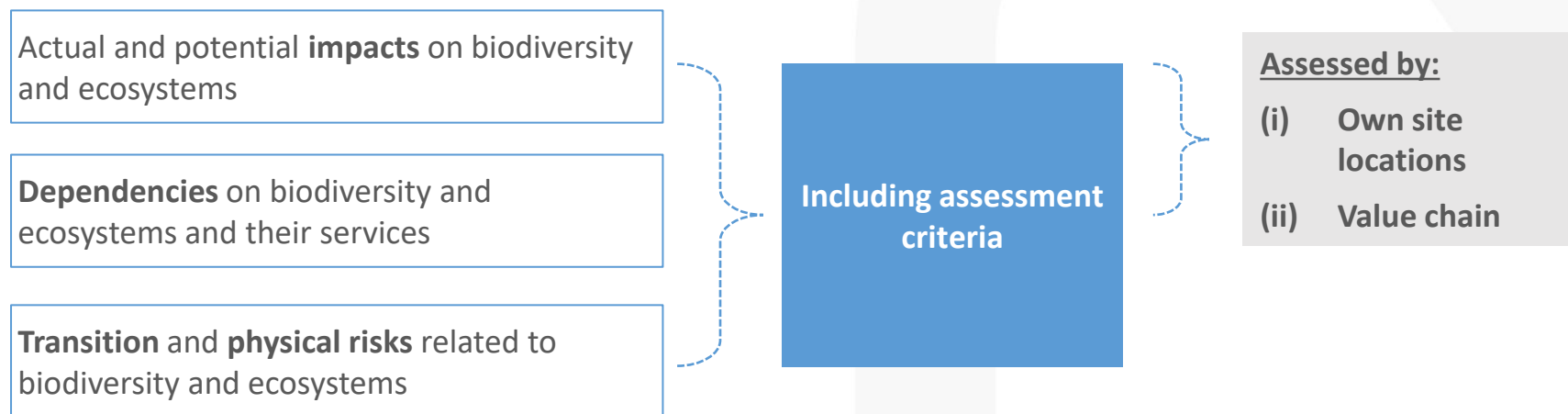
The **involvement** of stakeholders, including, where appropriate, holders of indigenous and local knowledge.

\*Also includes dependencies.

## ESRS 2 General disclosures

(DR related to ESRS 2 IRO-1 Description of processes to identify and assess material biodiversity and ecosystem-related impacts, risks and opportunities OPTIONAL)

- The description of the process to identify and assess IROs shall cover:



## ESRS 2 General disclosures

(DR related to ESRS 2 IRO-1 Description of processes to identify and assess material biodiversity and ecosystem-related impacts, risks and opportunities OPTIONAL)

- The description of the process to identify and assess IROs shall cover:

**Systemic risks** to (i) its own business model; and (ii) society as a whole in its assessment of biodiversity and ecosystems-related risks

Consultations with affected communities on sustainability assessments of shared biological resources and ecosystems

**When a site or a raw material production or sourcing is likely to adversely impact biodiversity and ecosystems**

**When affected communities are likely to be impacted**

**With respect to impacts on priority ecosystem services of relevance to affected communities**

## ESRS 2 General disclosures

DR related to ESRS 2 IRO-1 Description of processes to identify and assess material biodiversity and ecosystem-related impacts, risks and opportunities

- Possible pathways and information on biodiversity and ecosystems scenarios:

Why the considered scenarios were taken into consideration

How the considered scenarios are updated according to evolving conditions and emerging trends

Whether the scenarios are informed by expectations in authoritative intergovernmental instruments and, where relevant, by scientific consensus

## ESRS 2 General disclosures

DR related to ESRS 2 IRO-1 Description of processes to identify and assess material biodiversity and ecosystem-related impacts, risks and opportunities

- The undertaking shall specifically disclose:

The definition of the time horizon used for the analysis.

Whether and how it has used scenario analysis in the assessment process.

Whether or not it has sites located in or near biodiversity-sensitive areas and whether activities related to these sites negatively affect these areas [...]

By leading to the deterioration of natural habitats and the habitats of species and to the disturbance of the species for which a protected area has been designated; and

Where conclusions or necessary mitigation measures identified by any of the following assessments have not been implemented or are ongoing accordingly

## ESRS 2 General disclosures

DR related to ESRS 2 IRO-1 Description of processes to identify and assess material biodiversity and ecosystem-related impacts, risks and opportunities

- The undertaking shall specifically disclose:

A list of material sites based on the results of paragraph 23 (c). The undertaking shall disclose these locations by [...]

Whether or not it has identified material negative and positive impacts with regards to land degradation, desertification or soil sealing.

Whether it or not it has its operations affect threatened species.

Specifying the activities negatively affecting these areas

Providing a breakdown of sites according to the impacts and dependencies identified, and to the ecological status of the areas where they are located

Specifying the biodiversity-sensitive areas impacted

## ESRS 2 General disclosures

DR related to ESRS 2 IRO-1 Description of processes to identify and assess material biodiversity and ecosystem-related impacts, risks and opportunities

- Materiality assessment of ESRS covers the following sustainability matters in AR4:

Contribution to direct impact drivers of biodiversity loss as defined by iPBES:

- > Climate change
- > Land-use change, freshwater-use change and sea-use change
- > Direct exploitation
- > Invasive alien species
- > Pollution
- > Others

Impacts on the extent state of species (i.e., species population size, species global extinction risk)

Impacts on the extent and condition of ecosystems

Impacts and dependencies on ecosystem services

# Impact, risk and opportunity management

## DR E4-2 – Policies related to biodiversity and ecosystems

- The undertaking shall describe whether and how its biodiversity and ecosystems-related policies:

Are connected to and in alignment with the Post-2020 Global Biodiversity framework as well as the EU Biodiversity Strategy for 2030 and other relevant EU and national policies and legislation related to biodiversity and ecosystems.

May use a cross-reference to the information provided under Disclosure Requirement E4-1 - Transition plan on biodiversity and ecosystems

Relate to the sustainability matters specified in AR4.

Relate to its material biodiversity and ecosystems-related impacts.

Relate to material dependencies and material physical and transition risks and opportunities.



# Impact, risk and opportunity management

## DR E4-2 – Policies related to biodiversity and ecosystems

- The undertaking shall describe whether and how its biodiversity and ecosystems-related policies:

Support traceability of products, components and raw materials with significant actual or potential impacts on biodiversity and ecosystems along the value chain.

Addresses production, sourcing or consumption from ecosystems that are managed to maintain or enhance conditions for biodiversity.

Addresses social consequences of biodiversity and ecosystems related impacts.

Demonstrated by regular monitoring and reporting of biodiversity status and gains or losses

# Impact, risk and opportunity management

## DR E4-3 – Actions and resources related to biodiversity and ecosystems

- Their description shall include:

Indicate to which layer in the mitigation hierarchy a key action plan can be allocated to.

Explain whether or not it used biodiversity offsets in its action plans. If the action plans do contain biodiversity offsets, the undertaking shall disclose.

Describe how it has incorporated local and indigenous knowledge and nature-based solutions into biodiversity and ecosystems-related actions plans.

The aim of the offset and key performance indicators used

The financing (direct and indirect costs) of biodiversity offsets in monetary terms

A description of offsets including area, type, the quality criteria applied and the standards that the biodiversity offsets fulfil

## Impact, risk and opportunity management

### DR E4-3 – Actions and resources related to biodiversity and ecosystems

- Their description shall include:

Provide the following details for key action plans:

- i. a list of **key stakeholders** involved and how they are involved;
- ii. where applicable, an explanation on the need for appropriate consultations and the need to respect the decisions of **affected communities**;
- iii. a brief assessment whether the **key action plans** may induce significant adverse sustainability impacts;
- iv. an explanation whether the **key action plan** is intended to be a one-time initiative or systematic practice;
- v. an explanation whether the **key action plan** is carried out only by the undertaking or whether it is part of a wider action plan

# Metrics and Targets

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Including **methodologies and metrics used**.

Including the **scope** of the metrics and methodologies.

Including the **biodiversity components** of the metrics.

Including a **description of the geographies covered** by the methodology.

Including how the metrics allow for the **respect of ecological thresholds**.

Including the **frequency of monitoring**, key indicators being monitored, and the baseline condition/value and baseline year/period, as well as the reference period.

Including whether the **parametrisation of these metrics** rely on primary data, secondary data, modelled data or on expert judgement, or a mixture of these.

Including **which actions are measured and monitored via the metrics**, how they relate to targets achievement.

Including whether metrics are **mandatory** (based on legislation) or **voluntary**.

Including whether the metrics are **informed by relevant legislations**.

# Metrics and Targets

## DR E4-4 – Targets related to biodiversity and ecosystems

*“The undertaking shall describe the biodiversity and ecosystem-related targets it has adopted.”*

- The targets shall include:

Whether the undertaking has set targets related to material aspects specified in paragraph AR 4 [...].

Whether or not the target has set dates and milestones.

Whether ecological thresholds and allocations of impacts to the undertaking were applied when setting targets. This enables users to understand whether the target set by the undertaking is based on conclusive scientific evidence. If so, the undertaking shall specify:

the **ecological thresholds identified** and the methodology used to identify such thresholds;

whether or not the **thresholds are entity-specific** and if so, how they were determined; and

Specify how responsibility for respecting identified ecological thresholds is allocated in the undertaking.

## Metrics and Targets

### DR E4-4 – Targets related to biodiversity and ecosystems

*“The undertaking shall describe the biodiversity and ecosystem-related targets it has adopted.”*

- The targets shall include:

Whether and how the targets are informed by, connected to and / or aligned with the Post-2020 Global Biodiversity Framework, the EU Biodiversity Strategy for 2030 and other biodiversity and ecosystem-related national policies and legislation as well as authoritative intergovernmental instruments like the IPBES.

Whether or not the undertaking used biodiversity offsets in setting its targets.

To which of the following layers of the mitigation hierarchy the target can be allocated.

## Metrics and Targets

### DR E4-5 – Impact metrics related to biodiversity and ecosystems change

*“The undertaking shall report metrics related to its material impacts resulting in biodiversity and ecosystem change.”*

If the undertaking identified sites located in or near **biodiversity-sensitive** areas that it is negatively affecting, it shall disclose:

The number and area (in hectares) of sites owned, leased or managed in or near these protected areas or key biodiversity areas.

If the undertaking has identified material impacts with regards to **land-use change**, or impacts on the extent and condition of ecosystems it shall disclose:

Their land-use via a Life Cycle Assessment, based on a Life Cycle Assessment.

If the undertaking directly contributes to the impact drivers of accidental or voluntary introduction of **invasive alien species**, it shall disclose:

How it manages pathways of introduction and spread of invasive alien species and the risks posed by invasive alien species

## Metrics and Targets

### DR E4-5 – Impact metrics related to biodiversity and ecosystems change

*“The undertaking shall report metrics related to its material impacts resulting in biodiversity and ecosystem change.”*

If the undertaking contributes to the impact drivers of **land-use change, freshwater-use change and or sea-use change**, it shall report relevant metrics considering:

The conversion over time of land cover.

Changes over time in the management of the ecosystem.

Changes in the spatial configuration of the landscape.

Changes in ecosystem structural connectivity.

The functional connectivity.



# Metrics and Targets

## DR E4-5 – Impact metrics related to biodiversity and ecosystems change

If the undertaking identified material impacts related to the **state of species**, it shall report metrics it considers relevant and:

May be referred to in ESRS E1 on Climate change, ESRS E2 on Pollution, ESRS E3 on Water and Marine Resources, and ESRS E5 on Circular Economy.

Consider population size, range within specific ecosystems as well as extinction risk.

Include one or more indicators that measures changes in the number of individuals of a species within a specific area.

Include one or more indicators when disclosing information on species at global extinction risk such as:

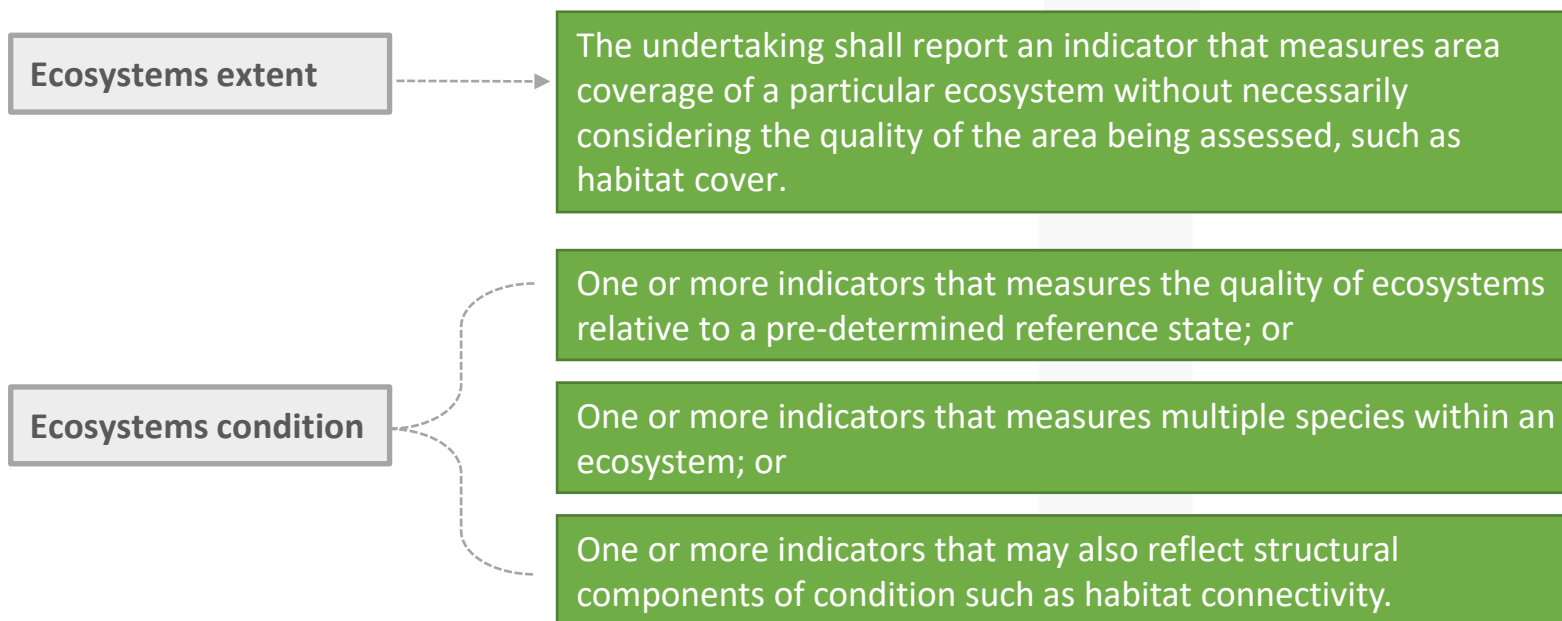
The threat status of species and how activities/pressures may affect the threat status

Change in the relevant habitat for a threatened species as a proxy for the undertakings impact on the local population's extinction risk.

# Metrics and Targets

## DR E4-5 – Impact metrics related to biodiversity and ecosystems change

If the undertaking identified material impacts related to **ecosystems**, it shall consider, per ecosystem category two aspects to obtain insights into the health of ecosystems:



## Metrics and Targets

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### DR E4-6 - Potential financial effects from biodiversity and ecosystem-related impacts, risks and opportunities

*“The objective of this Disclosure Requirement is to provide an understanding of:*

- (a) potential financial effects due to material risks arising from biodiversity- and ecosystem-related impacts and dependencies and how these risks have a material influence (or are likely to have a material influence) on the undertaking’s cash flows, performance and position, development, cost of capital or access to finance over the short-, medium- and long-term time horizons; and*
- (b) potential financial effects due to biodiversity- and ecosystem-related material opportunities and how the undertaking may financially benefit from such material opportunities.*

## Metrics and Targets

### DR E4-6 - Potential financial effects from biodiversity and ecosystem-related impacts, risks and opportunities

- Their description shall include:

a quantification of the potential financial effects in monetary terms or where impracticable, qualitative information. For financial effects arising from material opportunities, a quantification is not required if it would result in disclosure that does not meet the qualitative characteristics of information (see [draft] ESRS 1 Appendix C Qualitative characteristics of information). The quantification of the potential financial effects in monetary terms may be a single amount or a range;

a description of the effects considered, the related impacts and dependencies to which they relate and the time horizons in which they are likely to materialise; and

the critical assumptions used in the estimate as well as the sources and the level of uncertainty attached those assumptions.

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