

**[EFRAG SECRETARIAT PAPER FOR PUBLIC EFRAG SRB MEETING**

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## **Scope 3 absolute target setting for financial institutions**

### **Updated Cover Note**

#### **Objective**

- 1 The objective of this paper is to give background on the questions ID 1033, ID 1076, ID 1122 on target setting for financial institutions.

#### **Context**

- 2 On Tuesday 3 December 2024, EFRAG Secretariat held a meeting with some of the members of the Banking Advisory Panel (BAP) to discuss target setting in banks.
- 3 The BAP members detailed the different practices observed on the market as well as the challenges (namely, the current availability of stable Scope 3 inventories, the variety of of scenario analysis that exist, methodology, the usability of the target by the reader).
- 4 They also noted that the IG would pre-empt some of the discussions that need to take place in the preparation of the FI standards.
- 5 The BAP members suggested instead of an IG, to draft an **explanation** which relies on **transitional provisions** related to chapter 5 Value Chain when disclosing intensity targets.
- 6 This solution allows to provide a simplified explanation in the short term to the financial institutions sector while not pre-empting the work of the sectors-specific standards. This solution also allows to recognise the specificities and challenges encountered by the financial institution sectors.
- 7 The explanation has been discussed at SR TEG 5 December 2024 in close session. The SR TEG members did not object it.

#### **Questions**

- 8 ID 1033: "In the context of ESRS E1 34a and in a situation where a credit institution has set GHG emissions intensity targets, are credit institutions expected to provide associated absolute values in relation to their emissions intensity targets even if such metric is not used to steer the portfolio and due to the fact that it can be neither predictive or of confirmatory value due to the business model of the credit institutions?"

- 9 ID 1076: “Would it be possible for a financial institution to disclose GHG emissions targets set on Scope 3 cat. 15 (i.e. “financed emissions”) without reporting the corresponding targets in absolute emissions?”
- 10 ID 1122: “Absolute values for financial institutions - why not show exposure and exposure percentages instead of GHG emissions?”

### Background

- 11 Article 19 paragraph 2 (b) of CSRD states that *‘The information referred to in paragraph 1 shall contain:*
- (a) a description of the time-bound targets related to sustainability matters set by the undertaking, including, **where appropriate**, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets, and a statement of whether the undertaking’s targets related to environmental factors are based on conclusive scientific evidence;’*
- 12 ESRS E1 paragraph 34 (a) states that *‘If the undertaking has set GHG emission reduction targets, ESRS 2 MDR-T and the following requirements shall apply:*
- (a) GHG emission reduction targets shall be disclosed in absolute value (either in tonnes of CO<sub>2</sub>eq or as a percentage of the emissions of a base year) and, where relevant, in intensity value;’*
- 13 ESRS E1 AR23 states that *‘Under paragraph 34 (a), the undertaking may disclose GHG emission reduction targets in intensity value. Intensity targets are formulated as ratios of GHG emissions relative to a unit of physical activity or economic output. Relevant units of activity or output are referred to in ESRS sector-specific standards. In cases where the undertaking has only set a GHG intensity reduction target, it shall nevertheless disclose the associated absolute values for the target year and interim target year(s). This may result in a situation where an undertaking is required to disclose an increase of absolute GHG emissions for the target year and interim target year(s), for example because it anticipates organic growth of its business.’*
- 14 ESRS 1 paragraph 133 on transitional provision related to chapter 5 Value chain states that *‘For the first 3 years of its sustainability reporting under the ESRS in order to take account of the difficulties that undertakings may encounter in gathering information from actors throughout their value chain and in order to limit the burden for SMEs in the value chain:*
- (a) when disclosing information on policies, actions and targets in accordance with ESRS2 and other ESRS the undertaking may limit upstream and downstream value chain information to information available in-house such as data already available to the undertaking and publicly available information; and*
- (b) when disclosing metrics the undertaking is not required to include upstream and downstream value chain information except for datapoints derived from other EU legislation as listed in ESRS 2 Appendix B.’*

### Answer [Draft]

- 15 When reporting on GHG emission reduction targets, a financial institution might refer to ESRS 1 paragraph 133 (a) which allows an undertaking to adopt transitional measure for

their preparation in the first three annual sustainability statements regarding entity-specific disclosures.

- 16 In particular, Scope 3 targets for the lending portfolio are considered value chain information (see also IG 2 Value Chain, FAQ 2).
- 17 In the first three years of reporting, the bank may limit the information on value chain targets to the information available in house, which includes data already collected for pillar 3 reporting, information in the targets setting managerial procedures and other information that is publicly available.
- 18 [EFRAG secretariat understands that this would mean disclosing intensity targets except for fossil fuel sector for which pillar 3 requires already absolute targets].
- 19 The future ESRs for financial institutions may amend this requirement.

#### **Question to EFRAG SRB**

- 20 Do you agree to address this issue as Explanation instead of IG?
- 21 Do you agree with the text proposed above? Would you suggest to also add the text in paragraph 17?

#### **Next steps**

- 22 The EFRAG Secretariat suggests the following steps:
  - (a) Changing the current categorisations of those IDs to 'Explanation' (previously implementation guidance). It will require SRB and SR TEG approval.
  - (b) After review and approval by the SRB, publishing the current answer relying on transitional provisions by the end of the year.