

# EFRAG SRB agenda item 10 Educational session

## Exposure Draft ESRS E2 – Pollution

20 May, 2022



**EFRAG**

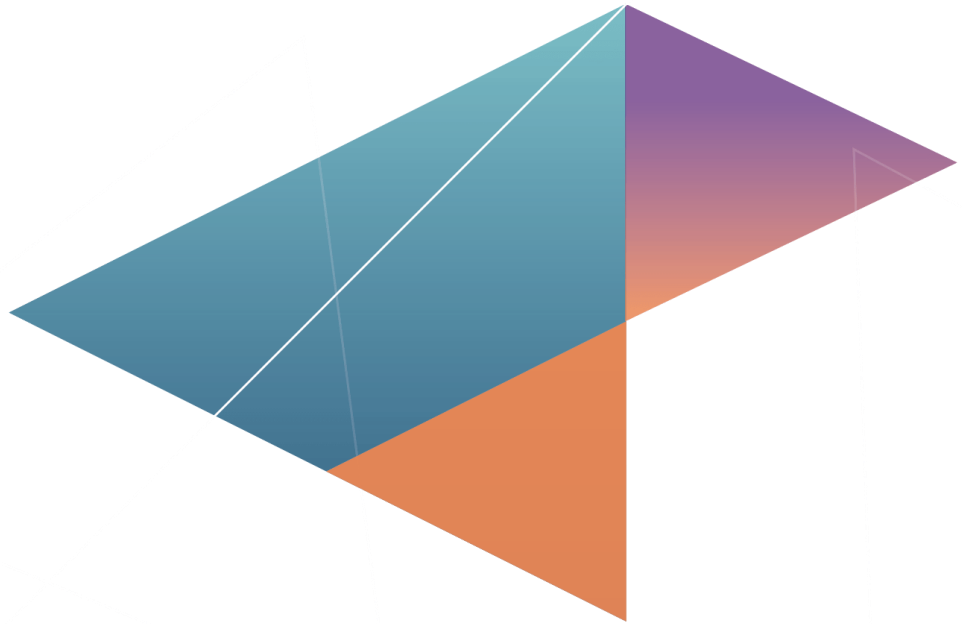
European Financial Reporting Advisory Group



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## Agenda

1. Objective of the [draft] standard and overview
2. Deep dive into Disclosure Requirements
3. Questions

## Objective and Overview

### Objective of ESRS E2

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

A. How the undertaking affects pollution of air, water (including groundwater) and soil, living organisms and food resources in terms of positive and negative material actual or potential adverse impacts

B. The undertaking's actions taken to prevent, mitigate or remediate actual or potential impacts

C. The plans and capacity of the undertaking to adapt its business model(s) and operations in line with the needs for prevention, control and elimination of pollution

D. The nature, type and extent of the material risks and opportunities related to the undertaking's impacts and dependencies arising from pollution, and how it manages them

E. The effects of pollution-related risks and opportunities on the undertaking's development, performance, position over the short, medium and long term and its ability to create enterprise value in the short, medium and long term

# Objective and Overview

## Content of ESRS E2

### STRATEGY (complemented by ESRS 2)

AG on ESRS 2-SBM4: Pollution integration in the resilience of the strategy and **business model**

TCFD  
 CSRD  
 ZPAP

AG on ESRS 2-IRO1 & 2: Pollution-related **impacts, risks and opportunities**

TCFD  
 CSRD  
 OEF

### IMPLEMENTATION

DR E2-1: **Policies** implemented to prevent and control pollution

CSRD  
 Sev. III

DR E2-2: Measurable **targets** for pollution

CSRD  
 ZPAP  
 Taxo  
 GRI

DR E2-3: Pollution **action plans and resources**

CSRD  
 GRI  
 IED  
 Taxo

### PERFORMANCE MEASURES

DR E2-4: **Pollution of air, water and soil**

SFDR  
 IED  
 CSRD  
 GRI

DR E2-5: **Substances of concerns and most harmful substances**

CSRD  
 Taxo  
 ZPAP

DR E2-6: **Pollution-related incidents and deposit impacts and risks**, and financial exposure to the undertaking

CSRD

DR E2-7: **Financial effects** from pollution-related impacts, risks and opportunities

CSRD

## Deep dive on Disclosure Requirements

### AG on ESRS 2-SBM4: Pollution integration in the resilience of the strategy and business model

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

The **resilience of the strategy and business model(s)** to risks related to pollution and to pollution prevention and control measures and regulations

A description of **opportunities** arising from pollution prevention and control measures and regulations, and/or from enabling activities

Including an understanding of its strategy for and **contribution to the EU Action Plan “Towards a Zero Pollution for Air, Water and Soil”**

The assessment of its strategy to mitigate impacts should include and identify:

Both **actual and future impacts, risks and opportunities**

Where in the **value chain** pollution-related impacts, risks and opportunities **are concentrated**

## Deep dive on Disclosure Requirements

### AG on ESRS 2-IRO1 & 2: Pollution-related impacts, risks and opportunities

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

The sub-subtopics related to pollution

*Pollution to air/water/soil, the production/distribution/commercialisation and use of substances of concerns; and enabling activities in support of prevention/control/elimination of pollution*

Environmental and human health impacts

Risks and opportunities

How it has applied the Commission Recommendation (EU) 2021/2279 of 15th December 2021 on the use of the Environmental Footprint methods

The undertaking shall disclose the outcomes of the process:

Pollution impacts, risks and opportunities related to regular activities

Incidents or emergency situations that are likely to lead to pollution and the issue of domino effects, or that have led to pollution with subsequent effects on the environment and society.

## Deep dive on Disclosure Requirements

### DR E2-1 – Policies implemented to prevent and control pollution

The undertaking shall disclose policies implemented in order to:

Mitigate its negative impacts and maximise its positive impacts in its own operations and value chain

Avoid incidents and emergency situations

Take into account of actual and possible upcoming regulations

Expand its enabling activities, and/or enhance their effectiveness, to enable other undertakings to prevent, control and eliminate pollution

Shall include which **sub-subtopic(s)** it covers

Shall include which **objective** it pursues: prevention at the source, minimisation and control, avoidance, etc.

#### **If it is not material for the undertaking:**

- Need to disclose that it's not material/not implemented
- Need to provide the reasons for not having adopted a policy or objective
- May report a timeframe in which it aims to have such policy or objective in place

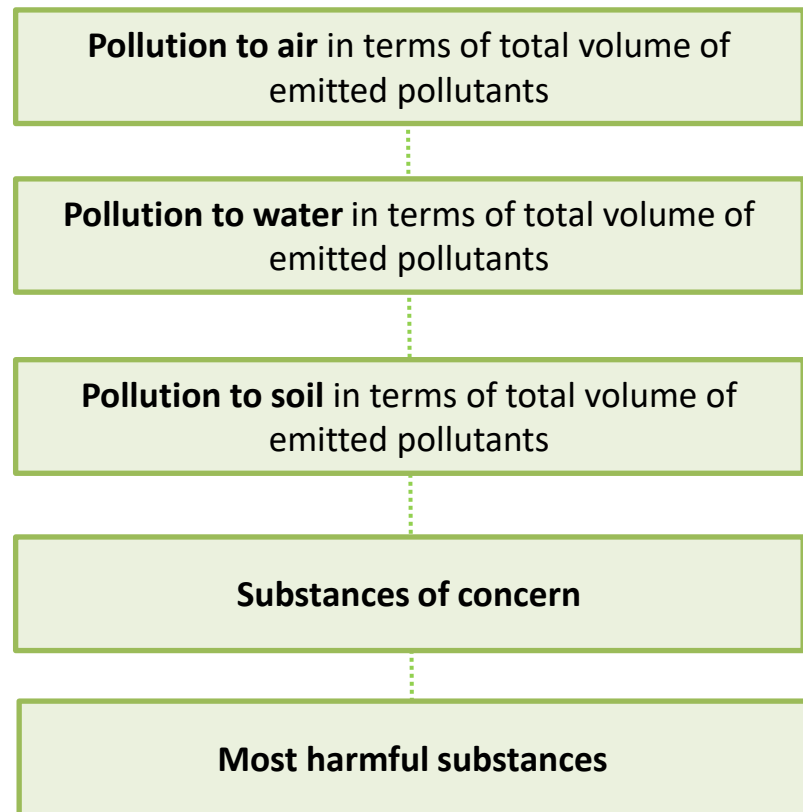


## Deep dive on Disclosure Requirements

### DR E5-2 – Measurable targets for resource use and circular economy

*“The undertaking shall disclose the pollution-related targets it has adopted.”*

The targets are related to:



#### The undertaking shall disclose:

- Whether targets are **mandatory or voluntary**
- A clarification on which emissions data and information the undertaking is required to report under the **Industrial Emissions Directive and the BAT frameworks**
- A presentation in **5-year periods including a set date in 2030**, detailing the **scope** covered in terms of total volume and/or specific loads
- The **geographical scope** of the target

**Total amounts generated and/or used** by the undertaking split into main classes of substances

**Absolute turnover and share of total turnover** of the undertaking realised with **products and services** that are or that contain those substances

**Absolute raw material cost and share of total raw material cost** of the undertaking when those substances are procured to produce other products and services

## Deep dive on Disclosure Requirements

### DR E2-3 – Pollution action plans and resources

*“The undertaking shall disclose its pollution-related action plans and the resources allocated to their implementation.”*

Their description shall include:

Whether the reported key actions are **planned or implemented to achieve compliance with environmental legislation**

Whether it is intended to be a **one-time initiative or a systematic practice**

**How stakeholders are involved (or/and a list of impacted stakeholders)**

**The outcome of its assessment whether key actions may induce significant sustainability impacts**

Whether it is **individual or collective**

Whether the **success of the action depends on similar or supporting actions** by other undertakings, and to what degree

Where an **action plan extends to value chain engagements**, the undertaking shall provide information on the **typology of actions** reflecting these engagements

Onboarding and compliance

Incentivising for improved pollution prevention and control

innovation

Assessment of supplier performance against the undertaking's own pollution prevention and control commitments

Selection processes against the undertaking's own pollution prevention and control commitments

Training and collaboration

## Deep dive on Disclosure Requirements

### DR E2-4 – Pollution of air, water and soil

*“The undertaking shall disclose the list of pollutants that are generated or used during production processes or that are procured, and that leave its facilities as emissions, as products, or as part of products or services.”*

#### ELEMENTS to disclose:

Pollutants to air

Pollutants to water

Pollutants to soil

The pollutants to be disclosed shall comprise those listed in **Annex II of the E-PRTR Regulation** and be grouped according to **AG15\***

For each one of the group of pollutants, the undertaking shall disclose the **source of pollution factors used**, as well as **standards, methodologies, assumptions, and/or calculation tools used**

The **total amount of emissions** in a defined period (in tons, kilograms, cubic meters)

The **specific loads of emissions** put in relation to production outputs

The **targets** as described in ESRS E2-2

The **land or water affected** (in km<sup>2</sup>)

#### The undertaking shall put them in context with:

- The **local air quality indices** for the area where the undertaking’s pollution to air occurs
- The **degree of urbanisation** for the area where pollution to air occurs
- The undertaking’s percentage of the **total emissions of pollutants to water and soil occurring in areas of high-water stress**

## Deep dive on Disclosure Requirements

### DR E2-5 – Substances of concern and most harmful substances

#### ELEMENTS to disclose separately:

(i) substances of concern

(ii) most harmful substances

Total amounts generated and/or used by the undertaking split into main classes of substances

Net turnover and share of total net turnover of the undertaking made with products and services that are or that contain the above-mentioned substances

Absolute raw material cost and share of total raw material cost of the undertaking that relate to the procurement of the above-mentioned substances to produce other products and services

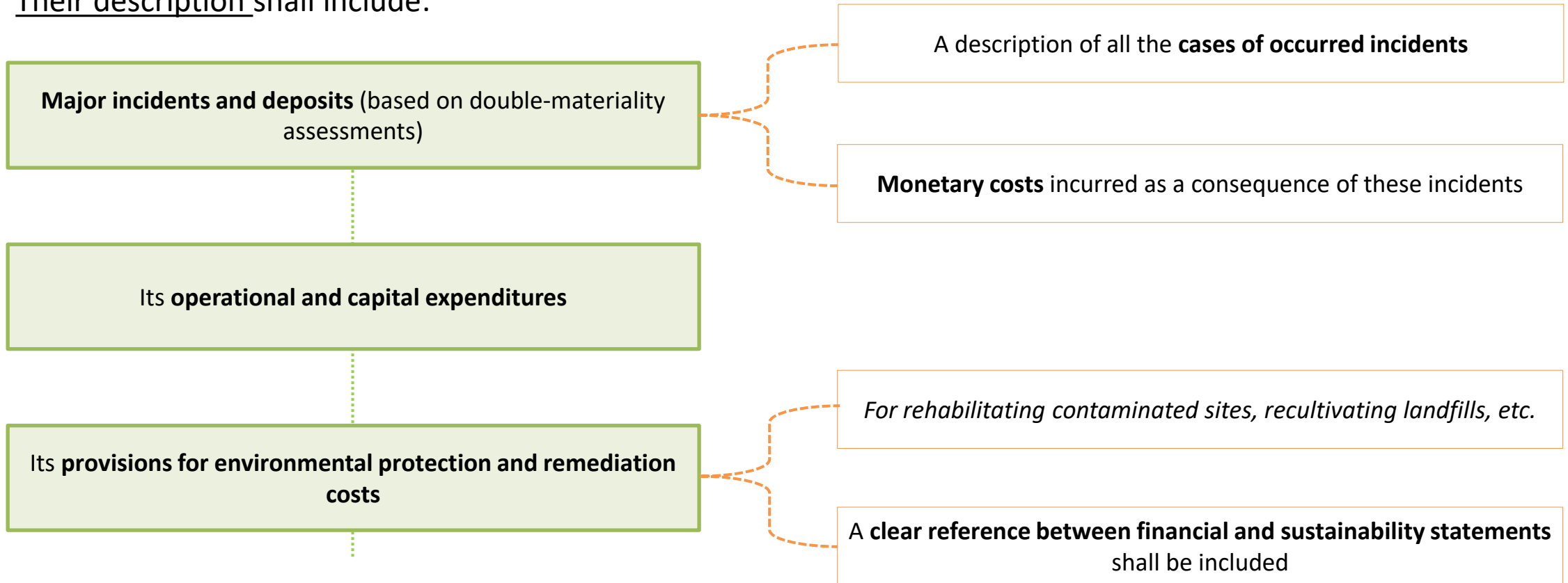
*“...the undertaking is expected to provide an understanding of **the impact of the undertaking on health and the environment** related to the undertaking’s **production, use, distribution and commercialisation of substances of concern and most harmful substances**, as well as an understanding of the undertaking’s risks and opportunities, including **exposure towards those substances of concern and risks arising from changes in regulations.**”*

## Deep dive on Disclosure Requirements

### DR E2-6 – Pollution-related incidents and deposit impacts and risks, and financial exposure to the undertaking

*“The undertaking shall disclose the impact of and its financial exposure to pollution-related incidents and deposits.”*

Their description shall include:



## Deep dive on Disclosure Requirements

### DR E2-7 – Financial effects from pollution-related impacts, risks and opportunities

*“...the undertaking is expected to provide an understanding of the effects of material risks and opportunities, related to the undertaking’s pollution-related impacts and dependencies, **on the undertaking’s development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value.**”*

The undertaking may include:

An assessment of the **market size of related products and services at risk** over the short-, medium-, and long-term

How these are defined

How financial amounts are estimated

Which critical assumptions are made



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