ANALYSIS OF THE PRELIMINARY COMMENTS OF TEG MEMBERS

ESRS E1 – CLIMATE CHANGE

This paper presents an assessment of the comments provided by EFRAG SR TEG members (in the survey). Such assessment is considered preliminary orientation, is not final (the final views will be expressed by SR TEG members following the end of the consultation) and has been prepared in order to provide EFRAG SR TEG with a basis for the discussion and to allow to identify the topics **that have to be discussed** following the consultation and those for which possible changes could be approved by EFRAG SR TEG/Board members (where appropriate) in written. Views of TEG members are preliminary at this stage and may change following the presentation of the outcome of the consultation. If feasible, for the topics identified to be amended, the EFRAG Secretariat will start preparing a markup. All the changes to the EDs will be submitted for approval by the SR TEG/SRB (where appropriate and reflecting the allocation of decisions at TEG/SRB) in written or in meetings. Comments supporting the proposals in the ED have not been reported in this paper as they do not require actions/discussions.

QUESTION FOR EFRAG SRT MEMBERS (will be asked in the meeting)

A decision on the changes to the EDs will only be made after having assessed the results of the public consultation in September. However:

a) some points of enhancements can already be identified and if feasible a markup can be already developed (on points that do not change the substance of the proposals). Those points are identified in the secretariat assessment as '**Draft to be amended'**. For these topics a written approval procedure is proposed in order to focus the discussion on more substantial points;
b) some comments point in the direction of possible DRs/datapoints that may be considered as postponed to year 2 and they are identified as to be **considered in the phase-in**;
c) some comments point in the direction of possible actions that are not compatible with the deadline of November (e.g. additional guidance on some aspects). They are identified as **not compatible with the November deadline**. Along the same lines, some items require an assessment of their feasibility by November and as such they are identified as **Feasibility for November to be assessed**;
d) some comments require discussion as they require a possible change in the substance of the requirements. They are identified as '**to be discussed'**. In this case, the EFRAG SR TEG members are invited to provide their preliminary orientation in the meeting.

1) Do you agree with the preliminary assessment by the EFRAG Secretariat? In case you disagree, please explain.

2) *Please provide your view on the items 'to be discussed in TEG'.*

1. SUGGESTED IMPROVEMENTS TO THE DRAFT

G = general

	DR	COMMENT	EFRAG SECRETARIAT PRELIMINARY ASSESSMENT	CONCLUSION/TO DO
1	G	The ESRS as a whole need to have a consistent approach to due diligence (across environment, social...) consistent with UNGP / OECD MNE Guidlinesdue diligence. We should consider strengthening the CCS consistent with this goal. The disclosures on social aspects of transition plans ("**just transition**") should also be covered here.	In the EDs just transition is conventionally located in the Social standards. This is to avoid mixing envt and social DR and because social impacts may come from other environmental issues (water scarcity for instance) and should not be repeated in several E standards. This point was already discussed in PTF. Insert a cross reference to ESRS S in E1-1.	Draft to be amended.
2	G	Comparability especially for emissions reporting requires a higher level of methodological advice than provided by ESRS, e.g. on the choice of **emission factors** used for calculations.	Additional guidance to be developed. To be addressed only if feasible for November, otherwise it will be considered on a future	Feasibility for November to be assessed
3	G	Suggest to include the following paragraph from the Appendix B in the main section of the standard. " In case the undertaking does not or not yet have a transition plan in place that ensures compatibility with limiting of global warming to 1.5°C and reaching net-zero GHG emissions by 2050 at latest, it shall provide an explanation of its climate change mitigation ambition and **whether and when it will adopt a transition plan**".	Drafting change (no impact on substance)	Draft to be amended.
4	G	An important information that would need to be specified is the inclusion in the definition of "**avoided emissions" of investments** (that contribute to climate mitigation), so that the framework of GHG emissions reporting would be exhaustive **for the financial sector too**.	This should become a sector specific DR as it relates to products. To be considered in the preparation of sector standards.	No actions for November.

5	E1/1	Sound criteria for climate transition plans will provide clarity to businesses, which in turn will support them to improve their plans and disclosures and avoid misallocation of resources. More **guidance on how to demonstrate the alignment to 1 5 C** could be useful.	The DR is clear and rather detailed. Good practices will emerge. EFRAG could work in the future on good practices/additional guidance but not in this phase.	No actions for November.
6	E1/1	Overlap with the requirements under DR E1 4, and it might be useful to **integrate DR E1 1 into E1 4**. That would mean that reporting entities would have to state whether their climate change mitigation plans will put they on a trajectory towards compatibility with the Paris Agreement or not and can therefore be called 'transition plans'. Corporations could be required to disclose milestones or targets in their transition plans. This would not just present valuable additional information to users, it would also allow them to ascertain in retrospect whether or not a reporting entity has achieved its transition goals. (Integration with DR E1 4 could go some way towards achieving this.) If a reporting entity has a transition plan that is not sufficiently concrete to have such milestones it should have to disclose this.	Agree to merge E1-1 and E1-4.	Draft to be amended.
8	E1/1	Paragraph 13 : Are the disclosure requirements as included in paragraph 13 on risk& opps and **transition plan sufficiently specific** to describe the entity's required transition to achieve its targets?	Contradictory to 7 above and no proposed change.	No actions for November.
9	E1/1	The **definition of 'transition plan'** provided in Appendix A is vague, and could be open to wide interpretation, which may impact the quality of the disclosures.	Contradictory to 7 above and no proposed change. Definition in E1-1 is precise.	No actions for November.
10	E1/1	**If no targets** have been set, consider including the reasoning for and timespan over which the entity expects to set such targets in the future.	Contradictory to 7 above and no proposed change. Definition in E1-1 is precise.	No actions for November.
11	E1/1	I suggest including a disclosure requirement in paragraph 24, requiring the disclosure of the actual use of carbon offsets (not only future offsets) and to precise if the reporting is based upon location or market based methodologies.	This aspect are already covered in the draft. Carbon offsets are already out of the scope of emissions reduction targets. Disclosure of market or location based is required under AG28b.	No actions for November.

12	E1/1	For all DRs ensuring standardization that enables machine readability is key.	The EDs have been prepared having in mind the need to standardize as much as possible.	No actions for November.
13	E1/1	Part A: needs to adequately deal with social impacts of transition plans.	See comment 1 and insert a cross reference to ESRS S.	No actions for November.
14	E1/1	Paragraph 15 :The inclusion of detailed disclosure requirements about intended carbon offsets under the requirements in paragraph 15(b) appear to give disproportionate weight to the offsets in the context of the overall strategy that this paragraph 13 addresses.	Already covered in par. 15b.	No actions for November.
15	E1/2, E1/12	My concern is that the boundary is the value chain, not sure information can be collected and a company can manage its **GHG emissions throughout the full value chain.**	CSRD requires to cover value chain. More guidance will be considered at a later stage. Phase-in for value chain will also help. Approximation methodologies exist.	No actions for November.
16	E1/2	Paragraph 16 (Policies): Clarify the distinction between this disclosure requirement and Disclosure Requirement E1 1.	Same as comment 7: TP overlap with Policies and actions.	To be discussed
17	E1/2	Disclosure Requirement E1 2 : Paragraph 17 : Concept of **value chain** is not sufficiently clear for the purposes of determining the extent to which the value chain needs to be considered.	Covering IROs along the value chain is an obligation of the CSRD. More guidance will be developed in the future to support implementation. Phase-in will also help.	No actions for November.
18	E1/2	ESRS should provide more clarity with respect to the disclosure requirements in this regard. For instance, the approach for franchises and affiliated companies for which there is significant influence, but not financial control should be clarified. For example, should an entity be required to identify significant climate related risks and opportunities in the value chain, up to a point where they have influence? I believe IROs should be disclosed on the full value chain, PTAPR on the value chain under operational influence.	The principle in ESRS is risk-based, i.e. data from entities in the upstream and downstream value chain are required when they are necessary to provide a fair representation of the undertaking position and performance under a double materiality perspective. When the collection of data is impracticable, the undertaking shall use approximations. Operational influence is a concept that supports the application of judgement on when to use approximations, but in principle under the materiality and risk-based principles, all the	No actions for November.

			reporting areas need to be covered, including PTAPR. Additional guidance may be needed, to be developed in future periods.	
19	E1/3	The time horizon for interim GHG targets should be aligned with the time horizon of the business plan, which are different according to each company. The GHG target setting process is as a core element of the development of the business strategic plans in order to ensure that they are actually a driver to spur the decarbonization across the value chain. We suggest to provide as much flexibility as possible as this is an incipient topic for which there is no an international standard. Suggest providing higher flexibility concerning the **time horizon of interim targets** by introducing the following change: *The undertaking shall disclose GHG emission reduction targets in no longer than five years rolling periods and at least include target values for the years 2030 and, if available, 2050.*	To be discussed in TEG	To be discussed
20	E1/3	Reservations about offsets and carbon credits due to their potential for being misused for window dressing and obscuring an entity's true emissions It is not entirely clear whether DR E 1 3 rules out their use in reporting targets for climate change mitigation Para 24 (point c) seems to rule them out, but Para 26 seems to allow their inclusion under certain conditions. Perhaps this should be stated clearly and consistently in the standard to avoid confusion.	Text to be made clear.	Draft to be amended.
21	E1/3	While targets in absolute terms are relevant to show how companies will limit their impact on climate change, there might be certain circumstances in which intensity target provide better information on how quickly they are decarbonizing their operations and value chain. This might be even more relevant in certain sectors. For this reason, the SBTi requires utility companies to set intensity targets for their Scope 1 emissions related to power generation instead of absolute targets. Suggest to change the following wording. *The undertaking shall disclose GHG emission reduction targets in absolute value* ***and/or****, if deemed meaningful****, in intensity value*** *(relative).*	The conclusion of the PTF is that both absolute and intensity are needed.	To be discussed
22	E1/3	The base year update proposed is not fully aligned with SBTi guidelines, which as of today is the most renowned standard to certify corporate GHG targets alignment to the temperature goals of the Paris Agreement The SBTi establishes that the choice of **base year must be no earlier than 2015**.	The PTF proposes 2022-2025 recent base year + historical achievement to foster comparison	To be discussed

23	E1/3	Paragraph 20 It would add value to include metrics that also give information on what has been achieved for example, realised GHG reductions or removals as a result of an entity's efforts rather than metrics on means (carbon pricing, etc)	This aspect is already covered by the DR.	No actions for November.
24	E1/3	Par. 23: Clarify the intention and scope of this requirement is an entity required to disclose whether or not it has set GHG emissions reductions target and whether the target is sufficiently challenging in the context of a transition to low carbon economy. Then if the disclosure of targets (and opportunities in the case of paragraph 20 (is materiality based or not)	Need to clarify.	Draft to be amended.
25	E1/3	I recommend separating the reductions from offsets and the reductions resulting from reduced capacity or outsourcing, as it is important to understand the reductions that are the direct result from reduction initiatives implemented	This aspect is already covered by the DR.	No actions for November.
26	E1/3	I also recommend reducing the reporting burden for this disclosure, particularly around the three tables required under paragraphs 24 and AG 30 (target by decarbonization lever).	This is the main added value of E1.	To be discussed / To be considered as part of the discussion on phase-in.
27	E1/4	Not sure about the feasibility of the disclosing the resources allocated to the action plans' implementation Sometimes the forecasting is not so granular, and in terms of the number of people allocated, it's difficult to measure their involvement, since they most likely will be assigned to more than one project.	Info about resources is needed to assess the quality of the plans. To facilitate the preparation this datapoint could be mandatory from year 2. Same as comment 26.	To be discussed/ To be considered as part of the discussion on phase-in.
28	E1/4	Narrative requirement, hard to digitize meaningfully.	Additional guidance to be developed at a later stage. Digitalization proof of concept underway.	No actions for November.
29	E1/5	It seems that the **energy indicator** only relates to the operations of the undertaking (scopes 1 and 2) and **not its value chain**, which for instance excludes the provision of information of the energy mix financed by the financial players.		To be discussed
30	E1/5	Par. 33: we propose to require reporting **energy consumption outside of the reporting organization** This information is important to understand an organization's range of impacts related to energy consumption and is necessary in order to compile data on GHG emissions Scope 3.	Not sure this is the way scope 3 emissions are calculated; link with comment 32.	To be discussed
31	E1/6	Paragraph 36 **Different units of energy measure** may be more appropriate to different sectors I propose that each sector should be allowed to use the most appropriate unit to express energy intensity.	Comparability issue.	To be discussed

32	E1/7 E1/8	Where is the discussion on the 3 approaches to define the boundaries? (equity share approach etc).	Additional guidance to be developed at a later stage. Digitalization proof of concept underway.	No actions for November.
33	E1/7	Paragraph 50. The information required in the **actions table under AG paragraph 50 overlaps with that required under Disclosure Requirement E 1 3**. GRI proposes combining them.	Need to clarify.	Draft to be amended.
34	E1/7, E1/9	Disclosure requirements on **scope 1 2 and 3** GHG emissions could be **grouped in a single one**.	Scope 1, 2 and 3 to be combined in a single DR. The scope and detailed guidance are different but this will be covered by the Application guidance that will continue to be detailed per each of the 3 scopes.	Draft to be amended.
35	E1/7	We suggest to request undertakings to provide the breakdown by type of greenhouse gas in order to provide further clarity concerning their impact on climate change.	The PTF considered this possibility but in order to keep a reasonable number of DRs they decided not to include. There is a limited value added by this detail, as all the gases are translated in comparable unit CO2eq at the end.	No actions for November.
36	E1/8	Par. 41: Clarify whether an entity can choose between market and location based, or whether it has to report on both.	Both are required, the text is clear.	No actions for November.
37	E1/9	Par. 45: Sector specific disclosures should be excluded from the sector agnostic standards.	Draft to be amended (instead of 'for many undertaking': 'Scope 3….may be the main component').	Draft to be amended.
38	E1/10	Limited value added, as being just sum of scopes 1 to 3	It is a relevant datapoint used for other calculations.	No actions for November.
39	E1/10	Standard did not take into account the trickle down effect on SMEs Too **complex for SMEs**	To be discussed in TEG	To be discussed
40	E/10	Need to clarify that an entity is required to provide information on emission factors used, including the source of those factors Would a **phase in approach be useful for scope 3**.	To be discussed as part of the phase-in	To be discussed as part of the phase-in

41	E1/10	Please clarify Should scope 1 2 and 3 remain a disclosure requirement subject to materiality or become mandatory.	This will be discussed as part of the follow up for rebuttable presumption. Not to be considered as a separate discussion point.	To be discussed
42	E1/12	We suggest to provide as **much flexibility on removals** as possible as this is an incipient topic for which there is no an international standard.	Clear definitions are needed for comparability reasons.	To be discussed
43	E1/12	Par. 55 We suggest specifying reported amounts as CO 2 stored minus the GHG emitted in the process ('net reduction of emissions').	This is already clarified in AG60e.	No actions for November.
44	E1/14	Avoided emissions from products largely considered a greenwashing topic. Doubts about the usefulness, relevance and verifiability of 'avoided emissions'. Of course it is good to standardize such disclosures for those companies that want to report them, but the standard should ensure that 'avoided emissions' are clearly separated from the more reliable mandatory numbers and placed in a way that they do not distract from the latter. Perhaps they should have to be relegated to a footnote if a company choose to report them.		To be discussed
45	E1/15, E1/16	Based on assumptions and estimations, hard to compare, hard for auditors to verify future looking information mostly based on assumptions. Financial effects are disclosed as " medium, low" for example, but not in monetary terms, since it's very sensitive information that could be misinterpreted until there is common and transparent methodology available. Otherwise, the results will vary between companies and would be difficult to understand from a stakeholder perspective. Another option is to phase in these disclosures until such methodologies are available.	This is a relevant datapoint for financial materiality. Guidance may be developed at later stage.	To be considered as part of the phase-in.
46	E1/17	E 1 17 Paragraph 73 application guidance is needed to improve quality and comparability	This aspect is already covered in the AG. Guidance may be developed at later stage.	No actions for November.

2. TOO MANY DR/GRANULARITY/COMPLEXITY/COST-BENEFIT

		COMMENT	EFRAG SECRETARIAT PRELIMINARY ASSESSMENT	CONCLUSION
1	G	**Effects of risks and opportunities** (financial materiality) difficult to measure without common methodologies, and therefore, difficult to be verified/assessed, to foster comparability across and within sectors and don't reach a reasonable cost/benefit balance. E1 15-17 will be difficult to report.	The alternative is to allow qualitative answers.	To be discussed
2	G	**Scope 3 emissions** might be **hard to compare** between companies as they might assess scope of what to include differently.	This is a material information and cannot be omitted. Disclosure on the key assumptions will help to contextualise and compare. More application guidance on Scope 3 to be included in the sector standards.	No actions for November.
3	G	**Locked-in emissions** appear to be very complex, probably sector-specific and not necessary in a cost-benefit analysis. **Avoided emissions** also seem very ambitious and sector specific.	To be discussed in TEG	To be discussed
4	G	Some **phase-in implementation** should be considered, in particular for financial effects: start with assessing IROs and calculate gross scope 1 & 2 GHG emissions -and scope 3 based on high-level estimates -, then afterwards give targets and provide financial effects which require to already be mature.	To be considered as part of the discussion on phase-in	To be considered as part of the discussion on phase-in
5	G	Information requested is sometimes very granular: some disclosures ("shall") could probably be considered either calculation methodologies which don't need to be disclosed or considered best practice/illustrative guidance instead of mandatory.	The use of 'shall' for calculation methodology is justified by the need to achieve comparable results. Check of "shall disclose" will be done.	No actions for November / however 'shall disclose' will be checked

6	G	Only undertakings that have been actively managing climate-related issues for several years will be able to report fully under ESRS E1. Vast majority of companies in scope of CSRD don't have climate policies or science-based GHG emission reduction targets or have accounted GHG Scope 3 emissions. Complying with ESRS E1 for those numerous companies will incur significant costs accumulated over a very short period of time.		To be considered as part of the discussion on phase-in
7	E1/6	Disclosure is almost meaningless Energy consumption is calculated based on the boundaries of the reporting entity as used for traditional financial reporting. Net turnover from products sold considers the total upstream value chain of these products Nominator and denominator are not compatible. Any interested party can easily calculate KPI on its own.	This is an explicit SFDR requirement.	No actions for November
8	E1/17	We have doubts about the usefulness, relevance and verifiability of reporting potential financial benefits from climate related opportunities It makes perfect sense for a business to identify such opportunities and act upon them, and this can certainly be mentioned in the narrative section of the management report, but it invites conjecture and falls short of the qualitative criteria of statutory corporate reporting. Moreover, in purely financial accounting terms it would also be simply imprudent to include such highly uncertain numbers in company reports. There is also a risk that undertakings do not want to disclose this kind of information due to competitive reasons.	Potential financial opportunities are not required for fin statements. Additional guidance in the future periods.	To be considered as part of the discussion on phase-in

3. ALIGNMENT WITH INTERNATIONAL STANDARDS / WITH EU REGULATIONS

	COMMENT	EFRAG SECRETARIAT PRELIMINARY ASSESSMENT	CONCLUSION
1	Despite high level comparability, alignment with international sustainability reporting standards is insufficient, starting from inconsistencies in terminology.		To be considered/discussed as part of the IFRS alignment
2	Large overlap with Taxonomy -approach commission to replace disclosures under Art. 8 by inclusion into ESRS	Amending other EU regulations is not in the mandate of EFRAG	No actions for November.

4. MISSING DATAPOINTS

		COMMENT	EFRAG SECRETARIAT PRELIMINARY ASSESSMENT	CONCLUSION
1	E1/15, E/16	Paragraph 67 Disclosure Requirement E 1 15 focuses on financial risk exclusively In the context of the proposed CSRD, the question arises as to whether the impacts on workers, etc related to physical risks should be reported which don't necessarily constitute a material financial effect. This seems to be a significant gap in the proposed disclosure structure.	Same as comment 1 in general section (just transition)	No actions for November.
2	E1/16	This DR focuses exclusively on financial risk to the reporting entity, but omits the risks to workers and communities These can be affected, too, by transition risks, esp when workplaces close down, while may not always come at a financial cost to the reporting entity This seems to contravene the double materiality principle, and it is doubtful whether the social ESRSs fully capture these risks to stakeholders.	Same as comment 1 in general section (just transition)	No actions for November.