

## FANALYSIS OF THE PRELIMINARY COMMENTS OF TEG MEMBERS

### ESRS E2 – POLLUTION

This paper presents an assessment of the comments provided by EFRAG SR TEG members (in the survey), prepared by the EFRAG Secretariat. Such assessment is considered preliminary orientation, is not final (the final views will be taken following the end of the consultation) and has the scope to provide EFRAG SR TEG with a basis for the discussion. Views of TEG members are preliminary at this stage and may change following the presentation of the outcome of the consultation.

Comments supporting the proposals in the ED have not been reported in this table as they do not require actions/discussions.

#### QUESTIONS FOR EFRAG SR TEG MEMBERS (will be asked 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*'.

**G = general**

#### 1. SUGGESTED IMPROVEMENTS TO THE DRAFT

	DR	COMMENT	EFRAG SECRETARIAT PRELIMINARY ASSESSMENT	CONCLUSION / TO DO
#47	G	Part of the AG should be illustrative guidance.	Indeed the application guidance should be more informative and should not mandate so much disclosure requirements. GRI made a similar comment. Non mandatory text will be moved to BfC.	Draft to be amended. .
#1 #22	E2-1 E2-3	Too many details requested.	To be discussed	To be discussed

EFRAG TEG COMMENTS SURVEY - EFRAG SRT meeting 27 June 2022

#11	G	The ESRS as a whole need to have a consistent approach to due diligence (across environment, social...) consistent with UNGP / OECD MNE Guidelines due diligence. We should consider strengthening the CCS consistent with this goal.	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 all environmental standards.	Draft to be amended.
#13	G-value chain	Standard is missing clear statements regarding pollution in value chain	Value chain is clearly mentioned in Policies, which then also means it is relevant for Targets and Action plans as they serve the policies set. It is also the case in AG related to resilience and materiality assessment. Regarding metrics (E2-4 in particular), value chain is mentioned through LCA of products.	No changes for November
#49	G-Value chain e	ESRS E2 is built over the concept of manufacturing and production. It doesn't cover (at least in performance measurement DRs) pollution that (1) is caused in the supply chain and (2) is connected to products that enter the market but are not manufactured by the company. ESRS E2 lacks any approach to capture light pollution and noise pollution.	This is indeed a recurring comment heard that the standard is focused on manufacturing and is not sector-agnostic. In particular, information provided under this standard by financial institutions may lack relevance hence the ongoing project at EFRAG on the classification of sectors. Application guidance at sector level will be developed in the next step (not for November). However, a clarification that also pollution in the supply chain and products that enter the market may be included.	Draft to be amended (if feasible for November).
#48	G-value chain	Guidance is needed on how to engage with your supply chain on this. This is also true for the other standards.	Guidance may be developed at later stage.	Not to be considered for November deadline.
#13	AG to ESRS 2 on GOV	Compared to E1, guidance falls significantly behind, e.g. no comment on management incentivisation	Indeed, there is no specific application guidance regarding remuneration but DR 2-GOV4 still applies as for all other topical standards. E1 AG is there to highlight the link with climate target and GHG emission reduction targets. It was not deemed relevant to specify further the incentive mechanism for pollution.	To be discussed

*EFRAG TEG COMMENTS SURVEY - EFRAG SRT meeting 27 June 2022*

#63	G-digitisation	<p>The comparability depends on standardization for machine readability. This is needed for comparability and for stakeholders to access the information. This is also true for all the other standards.</p> <p>Narrative requirement, hard to digitise meaningfully.</p>	XBRL taxonomy will be developed after November.	No actions for November
#47	E2-1/E2-2/E2-3	Some key concepts and PTAPR needs harmonisation across environmental standards.	Agreed, harmonisation / streamlining work is needed.	Draft to be amended.
#44	E2-1/E2-2/E2-3	<p>Paragraph 19: Could we align wording with ESRS 1 and E1 as an example: "The description of the climate change mitigation and adaptation policies shall follow the principles defined in ESRS 1 Disclosure Principle 1 on policies adopted to manage material sustainability matters."</p> <p>Paragraph 21: In addition to which subtopics it covers, the undertaking should also disclose a description of the policies. The objective of the policies are already mentioned in the requirement title: "pollution prevention and control". I would put paragraph 21 as an AG and stick to the ESRS 1 DP1 in the DR.</p>	Agreed, harmonisation / streamlining work has already started.	Draft to be amended.
#46	E2-2	Higher flexibility concerning the time horizon of interim targets should be provided to align with business plans	Consistency with climate change and the EU Zero Pollution Action Plan.	To be discussed.
#51	E2-2	The time horizon for pollution targets should be aligned with the time horizon of the business plan, which are different according to each company. Therefore, we suggest providing higher flexibility concerning the time horizon of interim targets.	Consistency with climate change and the EU Zero Pollution Action Plan.	To be discussed.

EFRAG TEG COMMENTS SURVEY - EFRAG SRT meeting 27 June 2022

#52	E2-2	Paragraph 27 (c): This paragraph seems like a copy paste of climate standard: why this reference to 2030?	In the EU Zero Pollution Action Plan, the vision is set for 2050 but with key targets in 2030 to speed up reducing pollution at source, hence it was deemed important to also encourage companies to set targets for 2030.	To be discussed
#52	E2-2	Paragraph 27 (d): This DR is already in ESRS1 DP1 in 100c.	Agreed.	Draft to be amended.
#52	E2-2	Paragraph AG9: Why should it mention target shortcoming? will it be frequent? Need to better understand the link with DNSH and substantial contribution.	The objective of para AG 9. is to show when a target is there to enable the undertaking to meet a DNSH and hence to become taxonomy-aligned. Indeed harmonisation with other standards would be needed.	To be discussed.
#53	E2-2	Substances of concern and most harmful substances should probably be disclosed separately and not split into main classes	The [Draft] EU Taxonomy Regulation delegated act singles out substances of concern and Most harmful substances and the latter are described in the Chemicals Strategy for sustainability, hence it was deemed relevant that undertakings disclose separately the subset of Most Harmful Substances.	To be discussed

EFRAG TEG COMMENTS SURVEY - EFRAG SRT meeting 27 June 2022

#54	E2-3	Disclosure requirement E2-3 - Paragraph 30: "In particular, the undertaking shall include the related allocation of resources established and communicated in financial terms". Why should we add this sentence? This DR is already mentioned in ESRS1 DP1. Disclosure requirement E2-3 - Paragraph 31: This paragraph could be located in AG as it details DP1 on expected outcomes of actions and induction of impacts on other topics.	Agreed.	Draft to be amended.
#21	E2-3	Does not take into account trickle-down effect on SMEs. Too complex	It is not clear why this specific Disclosure requirement would have a trickle-down effect (more than other ones).	To be discussed
#55	E2-4	Are paragraphs 34 & 36 consistent or overlapping? In Par 34, E-PRTR is linked to AG15 and subject to threshold. In Par 36, there is no reference to AG 15 but I think we are addressing the same pollutants with or without threshold? To be clarified?	This is drafted in order to be consistent: Annex II of E-PRTR Regulation provides a list of pollutants which have been grouped in categories under para AG15.	Draft to be amended for clarification/simplification
#55	E2-4	Disclosure requirement E2-4 - Paragraph 35: This requirement is already stated multiple times.	Agreed.	Draft to be amended for clarification/simplification
#56	E2-6	If not already disclosed as part of the undertaking's financial statements, the undertaking shall disclose its provisions for environmental protection and remediation costs, e.g. for rehabilitating contaminated sites, recultivating landfills, removal of environmental contamination at existing production or storage sites and similar measures. When the information is provided in the undertaking's financial statements, a clear reference shall be included in the sustainability statements. Assessments of pollution-related environmental liabilities, are included within the financial statement and accounted for as risk if they are linked to a defined and structured remediation plan. Considering the different time horizon, the link between financial and sustainability data needs to be clarified.	It is important to understand, that this is not only about time horizon and the level of uncertainty when disclosing information which is relevant for sustainability statements but not relevant for financial statements: it may also be a matter of material "impact" which is not financially material. Materiality assessment under IFRS (i.e. only material amounts are presented) may lead to different disclosures for sustainability statements: If there is a leak of substances of concern, it shall be disclosed, even if the financial amount is not material from an IFRS perspective.	To be discussed

*EFRAG TEG COMMENTS SURVEY - EFRAG SRT meeting 27 June 2022*

#36 #39	E2-6 E2-7	I suggest that financial effects are disclosed as "high, 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.	To be discussed in TEG and considered as part of the phase-in.
#12	E2-7	As for the effects of risks and opportunities on the undertaking's development, performance and position over the short-, medium- and long- term and therefore on its ability to create enterprise value, it's 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	This is a relevant datapoint for financial materiality which is also included in IFRS S1.  Guidance may be developed at later stage.	To be considered as part of the phase-in.
#47	E2-7	Potential financial effects: to be clarified.	See above point 7	
	E2-7	Paragraph 51: "Disclosure requirement is to an understanding". Verb "provide" is missing	Typo.	Draft to be amended.
	E2-7	Paragraph 52: The market size would be used for assessing an opportunity, not a risk. I would suggest to refer here to the current year turnover made with such harmful products. It is the concept of business activities at risk, the so-called brown taxonomy."	Agreed.	Draft to be amended.
#41	E2-7	Information is forward looking and based on estimations and assumption. Thus hard to verify.	This is a relevant datapoint for financial materiality which is also included in IFRS S1.  Guidance may be developed at later stage.	To be considered as part of the phase-in.

**2. GRANULARITY / SECTOR CONSIDERATIONS**

EFRAG TEG COMMENTS SURVEY - EFRAG SRT meeting 27 June 2022

#47	E2-2	Too many targets are proposed, more flexibility should be left to the undertaking on which targets to adopt depending on the materiality. The link to EU legislations is probably too strong. The sustainability report cannot be the repository of each and every obligation. For action plans, the list of stakeholders is also probably too granular. There may be some confusion on E2-4 about the indicators addressing the value chain, to be clarified.		To be discussed.
#49	G	F.: Auditors lack capabilities to verify information on pollution, substances of concern and most harmful substances.	Auditor qualification is not in the mandate of EFRAG.	Not to be considered.
#49	G	H.: Vast majority of undertakings (except few ones from the manufacturing sectors that have been actively managing pollution-related matters for a long time) possess no information on their impact on pollution, have no pollution-related policies and will not be able to produce any meaningful disclosures on the pollution emitted to air, water and soil.	Provided that pollution is a material topic, undertakings are expected to possess these data or be able to collect them. Guidance to be developed at a later stage.	To be discussed as part of the materiality/rebuttable presumption.
#47	G	Sector guidelines on double materiality, as for other E standards would be helpful as pollution-related impacts may be very sector-specific.	Sector standards are part of the next set of standards.	No actions for November.
#15 #22 #29 #35 #38 #41	E2-2 E2-3 E2-4 E2-5 E2-6 E2-7	Pollution is not material to all sectors - i.e. service sectors.		To be discussed
#1	E2-1	Pollution is not material to all sectors - i.e. service sectors. Would be overkill for a undertaking in those sectors to implement a policy for pollution - even though there might be pollution in their supply chain (office equipment, food in canteens, etc.).		
#52	E2-2	Paragraph 25 : All this DR should only be applicable for sector specific. Paragraph 27 (b) : This is typically a sector specific requirement. IED and BAT do not apply to all sectors.		
#14 #45	E2-2	Some of the required information is not relevant for all sectors - especially the KPISs. Could be more relevant to include in sector specific standards.		

*EFRAG TEG COMMENTS SURVEY - EFRAG SRT meeting 27 June 2022*

#20	E2-3	Pollution may be of lower relevance for some sectors, so would be action plans (rather than pure prevention)		
#28	E2-4	Only of minor relevance for service sectors.		
#34	E2-5	Substances of concern are not relevant for many businesses.		
#27	E2-4	As for the context information required, for undertakings present in several markets, this information can be burdensome		
#55	E2-4	Paragraph 34 : E-PRTR clearly defines Activities as well as Pollutants that are already today required to be disclosed under the E-PRTR Regulation. This mention should be sector specific. Disclosure requirement E2-4 - Paragraph 36 (b) : Should be in sector specific like carbon intensity per unit of product.		
#37	E2-6	Not probable for most service sectors		
#40	E2-7			
#57	E2-7	The undertaking may include an assessment of the market size of related products and services at risk over the short-, medium-, and long-term, explaining how these are defined, how financial amounts are estimated and which critical assumptions are made. The evaluation of the economic impact related to pollution and, as a further evolution the "market size" of the impact, requires a selection of what is material and the definition of criteria that allow to evaluate and compare the economic impact. For example, one could use the Taxonomy approach with thresholds for the level of pollution (eg if I respect the sector BATs I have no impact, if I am above the economic activity is at risk). The request should be supported by sectoral guidelines in order to allow companies to decline these requirements in an operational manner and allow for the application of the homogeneous standard within the sectors.		



*EFRAG TEG COMMENTS SURVEY - EFRAG SRT meeting 27 June 2022*

#44	E2-1	Paragraph 20: What is the added value of 20a,c & d in comparison with ESRS1 DP1? It is applicable to all topics?		To be discussed.
#22	E2-3	Action plans in general might not be prepared by already by the first year of disclosure	Phased-in approach to be considered once materiality assessment has been led.	To be discussed as part of the phase-in discussion,
	E2-3	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	Phased-in approach to be considered once materiality assessment has been led, but also later application guidance.	To be discussed in TEG.

**3. ALIGNMENT WITH INTERNATIONAL STANDARDS / WITH EU REGULATIONS**

#13	G	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.	Not to be considered.
#13	G	No visible efforts for alignment with ISSB	<p>The architecture derives from cross-cutting standards.</p> <p>More specifically on Pollution, there is no standard developed by the ISSB, so no alignment possible.</p> <p>However, further consistency with TNFD is sought.</p>	Architecture will be discussed as part of the IFRS areas of alignment.