

Analysis of TNFD staff informal feedback: ESRS E4 Issues Paper – for SR TEG closed session

DR	Comment	EFRAG Secretariat preliminary analysis	Conclusion
<p>General</p>	<p>To improve connectivity between the TNFD Framework and the EFRAG consultation standards, it would be helpful to map the standards to the TNFD framework. For example:</p> <ul style="list-style-type: none"> • ESRS E1 (Climate change), ESRS E2 (Pollution) and ESRS E5 (Resource use) are ‘drivers of change’ within the TNFD framework, as defined by IPBES. • ESRS E3 (water and marine resources) and ESRS E4 (Biodiversity and ecosystems) are environmental assets within the TNFD framework, as defined by UN-SEEA. • ESRS E5 (circular economy) is a business response within the TNFD framework. This area may be possible to align on as TNFD progresses its work in this area. <p>Greater clarity on the connectivity between different EFRAG standards would be welcomed, for example, by defining core nature-related categories of impacts / dependencies / risks / opportunities / responses as an overall framework which the standards fit into. This could be aligned with TNFD.</p>	<p>Secretariat agrees that additional clarity is need on how the environmental standards relate. Furthermore, it is beneficial to categorize the standards as suggested by TNFD. The Secretariat agrees with the proposed mapping of the environmental ESRS to TNFD.</p> <p>Classifying ESRS E3 and E4 as environmental assets also provides a conceptual justification to argue that dependencies are considered only in regard to water and marine as well as biodiversity and ecosystems. However, how both standards deal with dependencies needs to be aligned.</p>	<p>→ Improve references between environmental standards.</p> <p>→ EFRAG to develop an additional Appendix that maps the environmental topical standards to TNFD similar to Appendix IV to the Cover Note for TCFD Recommendations and ESRS reconciliation table.</p>
<p>Objective E4-2</p>	<p>TNFD supports the reference to SDGs, the post-2020 Global Biodiversity Framework and Planetary Boundaries in paragraphs 1C and 26. It would be helpful to provide further information on how organisations can measure their contributions in a practical way. This is an area for potential alignment.</p>	<p>Embedding the ESRS into a global context is important to ensure that they match emerging global baseline.</p> <p>Regarding the final CBD negotiations only taking place in December 2022 it is difficult to ensure full alignment. Nevertheless, as the expected results of the CBD negotiations will likely be on par with the Paris agreement, they are highly relevant to the ESRS, esp. ESRS E4.</p>	<p>→ To be considered in potential future amendments, when global baseline emerges</p>

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		Furthermore, collaboration with TNFD shall be formalized and intensified.	
Appendix A	TNFD supports the alignment of the definition of Nature-positive to the Global Biodiversity Framework. TNFD has noted that the notion of biodiversity-friendly could be further defined.	<p>Secretariat agrees. See preliminary analysis in the previous lines.</p> <p>Furthermore, the feedback from the public consultation indicated that a range of terms are not yet sufficiently well defined. The Secretariat will therefore consider the results of the public consultation, indicating that terms, such as biodiversity-friendly, require further clarity on their meaning. This is essential to ensure that undertakings have the same understanding of the disclosure requirements, enhances comparability and reduces the opportunity for greenwashing.</p> <p>While feedback was received that Appendix A is too granular the Secretariat believes that it is better to err on the side of clarity and provide more definitions. However, terms that are not needed shall be discarded to enhance clarity.</p>	→ Add and align definitions
E4-2 to E4-4	TNFD supports the connection to mitigation hierarchy principles (e.g. paragraphs 22 and 64). It may be beneficial to explicitly refer to/define mitigation hierarchy principles in the main body of the text, as opposed to just the appendices.	<p>The mitigation hierarchy is essential for users to be able to understand the level of ambition the undertaking in regard to dealing with its material impacts, dependencies, risks and opportunities.</p> <p>This is in line with the comment from GRI: “The revised GRI Standard for biodiversity is expected to focus on the actions taken by the undertaking in relation to the mitigation hierarchy.”</p> <p>Therefore, the Secretariat agrees that the mitigation hierarchy principles shall be considered in the main body of the text.</p>	→ Ensure the mitigation hierarchy principles are considered from E2 to E5 and highlighted more prominently
AG IRO 1, IRO 2	EFRAG could consider expanding its guidance on how to identify material geographical sites (e.g. paragraph AG13) in line with the TNFD prioritisation criteria. See here .	Consider adding additional AG to enhance clarity.	→ To be considered
AG IRO 1, IRO 2	TNFD agrees with and supports the alignment of risk definitions (physical, transition and systemic). It would be helpful to provide further information on how organisations	Aligning to the emerging international baseline in which TNFD will likely play a key role is critical to take into account, due to the mandate by the	→ No actions on Set 1, however area to be

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Appendix A	should quantify their risk exposure. This is an area for possible alignment.	CSRD as well as feedback from the consultation. Deviations are permitted, however, as e.g. EU-law trumps the global baseline.	<i>monitored in next phases</i>
E4-5, E4-6, E4-7	EFRAG could consider referring to only impact drivers as opposed to both impact drivers and pressures. This would allow for both positive and negative impacts on nature and simplify the standard. TNFD is considering updating our thinking of impact drivers to ensure they fully allow for positive contributions. This is an area for potential collaboration.	This is in line with the feedback received from GRI: “By using the direct drivers approach proposed for Disclosure Requirement E4-5, Disclosure Requirements E4-5, E4-6, E4-7 and E 4-9 could be combined into one disclosure requirement focusing on drivers of biodiversity loss.” Proposal: see Agenda Paper.	<ul style="list-style-type: none"> ➔ <i>Reduce number of DR by only keeping E4-6</i> ➔ <i>Allow for the disclosure of positive impacts on nature</i>
AG IRO 1, IRO 2	Paragraph AG24 requires the mention of site coordinates to enable users to determine the exact location of sites. TNFD recommends EFRAG consider whether this will always be practicable and feasible.	Site-coordinates shall be limited to those sites that undertakings identify during their materiality analysis. The EFRAG Secretariat agrees that disaggregation at site level is material information and has to be included for environmental topics, in particular other than climate. Coordinates seems one practical way to provide easy to use information.	<ul style="list-style-type: none"> ➔ <i>Coordinates only required for sites with material impacts.</i> ➔ <i>A similar approach should be taken for ESRS E2 and E3 though given the feedbacks on granularity, phase-in should be considered.</i>
Interaction with other ESRs	TNFD recommends that paragraph 5 refers to ‘drivers of ecosystem change’ as opposed to ‘drivers of ecosystem loss’ to allow for both positive and negative changes.	CSRD explicitly looks at risks and opportunities. Furthermore, room for reporting positive impacts must be provided.	➔ <i>“Biodiversity and ecosystem loss” will be modified to “biodiversity and ecosystems change”.</i>
E4-2	In paragraph 21(c), TNFD recommends that dependencies are separated from physical and transition risks to improve clarity, and that specific reference to ecosystem services is made in relation to dependencies. There is currently an emphasis on impacts with far less information on dependencies – could dependencies be more prominent as well as better described?	Dependencies shall be separated in § 21(c) from physical and transition risks as follows: “20. The undertaking shall describe its biodiversity and ecosystems-related policy, including its general objectives, which may relate to: (c) its material dependencies on ecosystem services;	<ul style="list-style-type: none"> ➔ <i>To be implemented</i> ➔ <i>Align from E2 to E5 on dependencies and ensure that is aligned to TNFD</i>

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		<p>(d) and material physical and transition risks and opportunities;"</p> <p>Feedback from the public consultation indicated that conceptually "dependencies" were not well integrated into the ED's.</p> <p>ESRS E3 and E4 at minimum shall cover "dependencies" and use a joint approach. EFRAG Secretariat also finds relevant and propose to include the concept of dependencies in E2 and E5 (pollution may arise from the use of raw materials / resources from which the undertaking is dependent upon).</p>	
<p>AG IRO 1, IRO 2</p>	<p>TNFD would welcome a better distinction between elements related to impact materiality and those related to financial materiality.</p>	<p>Ensure alignment with other environmental standards.</p> <p>Feedback received from the public consultation on E4-10 was that AG was not granular enough. Issue paper dedicated to the issue with 2 options:</p> <ul style="list-style-type: none"> - Rather than add broad requirements at the sector-agnostic layer accompanied by a two or three year phase-in, the Secretariat suggest to be more specific at the sector-specific layer without applying a phase-in - Keep the disclosure requirement at sector agnostic level but reword and make it "qualitative", as long as phase-in + provide illustrative guidance. 	<p>→ See dedicated issue paper</p>
<p>AG IRO 1, IRO 2 E4-6</p>	<p>TNFD recommends that business impacts and dependencies are considered in relation to the defined categories of 1) impact drivers; 2) impact on nature (changes to the state of nature); and 3) changes to ecosystem services.</p> <p>It is currently not clear how ecosystem services are considered. Defining these 3 categories (which are relevant to both business impacts and dependencies) would improve clarity. Furthermore, TNFD would welcome further clarification on the notion of the severity of an impact and its scale.</p>	<p>To be considered to align with IPBES and ensure that all nature-related aspects to be covered at the sector-agnostic layer are included.</p> <p>Feedback from the public consultation indicated that ecosystem services were not well integrated. To be considered.</p>	<p>→ Align with IPBES</p> <p>→ To be considered in Set 1</p>

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E4-3	Systemic risks are currently mentioned in the annexes only. EFRAG could consider referring to organisations' contribution to systemic risks within the main text, particularly in relation to the crossing of thresholds/planetary boundaries. This is an area for possible collaboration.	Targets may already be set into context with thresholds (see §34 (c)). Crossing thresholds can lead to systemic risks materializing, e.g. local or regional ecosystems collapse. It is therefore essential to put targets into a geographical context.	→ Disclosure on thresholds / planetary boundaries shall remain with additional AG to be added
E4-1	TNFD has not yet fully considering transition planning – this is a possible area for alignment and shared learning.	Collaboration to be formalized and intensified. Much will depend on the result of CBD negotiations.	→ No change
General	TNFD agrees with the scope of the standard considering upstream, downstream and direct operations.	Secretariat agrees, as environmental impacts mostly occur along the value chain. This is already covered in E4. Consider phase-in where appropriate.	→ No change (exc. Phase-in)
AG SBM 4	Scenario analysis is a possible area for collaboration – TNFD is currently expanding its work in this area through the formation of a new working group.	Collaboration to be formalized and intensified.	→ No change