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The content of each Explanation has been drafted to provide an answer to a specific technical question and cannot be directly extended by analogy to a different fact-pattern.

Log of draft explanations

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Cross-Cutting

ID 166 – Scope of consolidation timing of acquisitions and divestments

[For SRB to note: TEG and also SRB WG members agreed with the answer of this ID but some pointed out the practical difficulties that undertakings have following the current ESRS requirements for acquisitions close to year-end; also noting that pointing to estimates is not helpful especially if those estimates do not meet the requirements for quality of information (“badly estimated metrics”). An Amendment to ESRS was considered necessary by many.]

Question asked

In case an undertaking acquires / (divests from) one or more of its subsidiaries how should the undertaking report on them in the year of acquisition / (divestment)?

ESRS reference

ESRS 1 paragraphs 33, 62

Key terms

Acquisition and divestment of subsidiaries in the sustainability statement

Background

ESRS 1 paragraph 33 states: ‘When disclosing information on policies, actions and targets in relation to a sustainability matter that has been assessed to be material, the undertaking shall include the information prescribed by all the Disclosure Requirements and datapoints in the topical and sector-specific ESRS related to that matter and in the corresponding Minimum Disclosure Requirement on policies, actions, and targets required under ESRS 2. If the undertaking cannot disclose the information prescribed by either the Disclosure Requirements and datapoints in the topical or sector-specific ESRS, or the Minimum Disclosure Requirements in ESRS 2 on policies, actions and targets, because it has not adopted the respective policies, implemented the respective actions or set the respective targets, it shall disclose this to be the case and it may report a timeframe in which it aims to have these in place.’

ESRS 1 paragraph 62 states: ‘The sustainability statements shall be for the **same reporting undertaking as the financial statements**. For example, if the reporting undertaking is a parent company required to prepare consolidated financial statements, the sustainability statement will be for the group. ...’

ESRS 1 paragraph 102 states: ‘When the undertaking is reporting at a consolidated level, it shall perform its assessment of material impacts, risks and opportunities for the entire consolidated group regardless of its group legal structure. ...’

The consolidated group comprises the parent company and the subsidiaries financially controlled based on IFRS accounting standards or the applicable national GAAP. A parent company might acquire control / (or lose control) over a subsidiary during the reporting period. From an accounting point of view the subsidiary is consolidated for the first time on the day control is achieved / (or de-consolidated at the date control is lost) according to applicable accounting requirements. Under IFRS accounting standards the undertaking has one year of time to complete the full accounting procedure and at the year end, pending the completion of the procedure, a provisional accounting approach is taken. ESRS do not have a corresponding provisional reporting approach.

Answer

The sustainability statement shall be for the same reporting undertaking as the financial statements. Therefore, in the approach of the first-time consolidation (deconsolidation) of newly acquired (disposed) entities, the perimeter for sustainability statement follows the scope and timing applied in the financial statements. This results in a pro-rata inclusion or exclusion of flux metrics (e.g. water consumption, GHG emissions) starting from the data of acquisition or ending to the data of divestment (i.e. date control is acquired or lost) and a consideration of point-in-time metrics at that specific point-in-time (e.g., balance-sheet date with the acquired respectively without the disposed-off entities).

If regarding newly acquired subsidiaries the undertaking cannot disclose the information prescribed by either the Disclosure Requirements and datapoints in the topical or sector-specific ESRS, or the Minimum Disclosure Requirements in ESRS 2 on **policies, actions and targets**, because it has not adopted the respective policies yet, implemented the respective actions yet or set the respective targets yet, it shall – if they relate to a material matter- disclose this to be the case and it may report a timeframe in which it aims to have these in place (see ESRS 1 paragraph 33). However, the reporting undertaking shall disclose the policies, actions and targets adopted by the acquired investee before the acquisition, when they were in place in the reporting period to manage material IROs.

Material **metrics** of impacts, risks or opportunities of the acquired investee are to be reported, i.e. included in the relevant group metrics. If the metric cannot be determined through direct data collection, it shall be estimated; assumptions and limitations in this estimation shall be disclosed.

Similarly to what happens in the preparation of consolidated financial statements, practical considerations might be applied when preparing the sustainability statement, such as not including the data of an entity acquired during the reporting period, when the difference in the relevant metrics would be immaterial, provided that the resulting information still allows to meet the qualitative characteristics of information, including relevance and faithful representation (see ESRS 1 paragraph 19).

Sources of estimation and outcome uncertainty shall be disclosed in accordance with ESRS 2 paragraph 11.

See also:

ID 148 Scope of consolidation – non-EU and unconsolidated subsidiaries;

ID 337 Metrics calculation – same level of precision; and

ID 504 Disclosure Requirements on material metrics when information is not available.

For the attention of the SRB:

An SRB WG member objected and provided the following rationale:

‘Material **metrics** of impacts, risks or opportunities of the acquired investee are to be reported, i.e. included in the relevant group metrics. If the metric cannot be determined through direct data collection, it shall be estimated; assumptions and limitations in this estimation shall be disclosed.’

The member thinks that the above is not always possible, nor sensible and would prefer to follow the process as described in the following paragraph:

‘If regarding newly acquired subsidiaries the undertaking cannot disclose the information prescribed by either the Disclosure Requirements and datapoints in the topical or sector-specific ESRS, or the Minimum Disclosure Requirements in ESRS 2 on **policies, actions and targets** ... if they relate to material matter- disclose this to be the case and it may report a timeframe in which it aims to have these in place (see ESRS 1 paragraph 33).’

As such, the member proposes this edit or rejects this explanation if changes cannot be made.

Feedback from the secretariat: We note the concern and understand the difficulties. The same view has been raised by some in TEG as well. However, ESRS 1 paragraph 33 is only applicable to PAT, so cannot be extended by analogy to other situations. The concern might result in an amendment of ESRS going forward.

ID 438 – Treatment of non-material datapoints: e.g., radioactive waste - can it be a non-material datapoint?

Category

Cross-cutting

Question asked

Is it necessary to report radioactive waste from analytical devices and tracer applications?

ESRS Reference

ESRS E5 paragraph 39; ESRS 1 paragraph 34, ESRS 2 paragraph 56

Key terms

Waste; radioactive waste; non-material datapoint

Background

The submitter provided the following background: ‘Reporting all radioactive waste according to 2022/70/Euratom would include radioactive tracers and, analytical devices and sensors. Reporting of these wastes should be excluded because they are present in very small amounts and already locally reported under applicable legislation. Ex-EU, the definition of radioactive waste may also be different from 2022/70/Euratom.’

ESRS E5 paragraph 39 states: ‘The undertaking shall also disclose the total amount of hazardous waste and radioactive waste generated by the undertaking, where radioactive waste is defined in Article 3(7) of Council Directive 2011/70/Euratom.’

ESRS 1 paragraph 34 states: ‘When disclosing information on **metrics** for a material **sustainability matter** according to the Metrics and Targets section of the relevant topical ESRS, the undertaking:

- (a) shall include the information prescribed by a Disclosure Requirement if it assesses such information to be material; and
- (b) may omit the information prescribed by a datapoint of a Disclosure Requirement if it assesses such information to be not material and concludes that such information is not needed to meet the objective of the Disclosure Requirement.'

ESRS 2 paragraph 56 states: ' ... The undertaking shall also include a table of all the datapoints that derive from other EU legislation as listed in Appendix B of this standard, indicating where they can be found in the sustainability statement and including those that the undertaking has assessed as not material, in which case the undertaking shall indicate "Not material" in the table in accordance with ESRS 1 paragraph 35.'

Answer

It depends, whether it is necessary to report radioactive waste.

The Disclosure Requirement of ESRS E5-5 - *Resource outflow* with the datapoints total amount of hazardous waste and radioactive waste (paragraph 39) is - as all the topical Disclosure Requirements - subject to double materiality and to materiality of information as stipulated in ESRS 1 chapter 3 – *Double materiality as the basis for sustainability disclosures*:

- (a) is the sub-topic 'waste' material? - the undertaking shall only disclose the datapoints of the sub-topic waste of ESRS E5, if considered material under double materiality (see ESRS 1 chapter 3.3 *Double materiality*); and if so,
- (b) does the datapoint provide material information? - the metrics required to be disclosed by ESRS E5-5 *Waste* including 'the total amount of hazardous waste and radioactive waste generated by the undertaking' shall only be disclosed if such information is assessed to be material and may be omitted if not (ESRS 1 paragraph 34).

Accordingly, it depends on materiality whether radioactive waste from analytical devices and tracer applications shall be reported. Reference is made to ESRS 1 paragraphs 36 and 42 on establishing appropriate thresholds when disclosing on metrics.

It is noted that the datapoints of ESRS E5 paragraph 39 derive from other EU legislation as listed in Appendix B of ESRS 2 and that ESRS 2 paragraph 56 applies. This means that - if applicable (i.e., the amount of radioactive waste is not material for reporting) - the enterprise shall flag that the amount of radioactive waste is not material in accordance with ESRS 1 paragraph 35.

Reference is made to ID 952 –*Metrics – rounding and decimals; materiality of information*.

ID 753– Financial materiality in the value chain and power purchase agreements

Category

Cross-cutting

Question asked

- (1) Shall a matter included in the financial statements of the undertaking but being outside of its value chain be reported in the undertaking's financial materiality assessment?

- (2) There is uncertainty whether a PPA (Power Purchase Agreement) would enter the scope of the value chain of the undertaking. More specifically, 1) in the case of a VPPA 2) in the case of a DPPA.

ESRS Reference

ESRS 1 chapter 3.5 *Financial materiality*, paragraphs 49 and 63

Key terms

Value chain; financial materiality; power purchase agreements

Background

[As part of the question the submitter also stated: 'While Section 3.5 Financial materiality doesn't mention that the matter shall be part of the undertaking's value chain, the related risks and opportunities notions are used in the rest of the document as "in the undertaking's value chain" .']

ESRS 1 paragraph 49 states: 'A sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material financial effects on the undertaking. This is the case when a sustainability matter generates risks or opportunities that have a material influence, or could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term. Risks and opportunities may derive from past events or future events. The financial materiality of a sustainability matter is not constrained to matters that are within the control of the undertaking but includes information on material risks and opportunities attributable to business relationships beyond the scope of consolidation used in the preparation of financial statements.'

ESRS 1 paragraph 63 states: 'The information about the reporting undertaking provided in the sustainability statement shall be extended to include information on the material impacts, risks and opportunities connected with the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain ("value chain information"). ...'

A power purchase agreement (PPA), or electricity power agreement, is a long-term contract between an electricity generator and a customer, usually a utility, government or company. The PPA defines the conditions of the agreement, such as the amount of electricity to be supplied, negotiated prices, accounting, and penalties for non-compliance. Since it is a bilateral agreement, a PPA can take many forms and is usually tailored to the specific application. The power generated might be renewable. Under a PPA, the customer is strictly speaking paying a provider for the energy received. Therefore, in the case of renewable energy the undertaking will not necessarily get the ancillary benefits of owning the renewable energy asset, such as the ability to get tax rebates or sell renewable energy credits.

PPAs might be in the form of a physical-PPA (customer is receiving a fixed amount of energy at a fixed price) or virtual-PPA (customer is receiving / paying cash for a fixed amount of energy based on the difference between a fixed and a variable price per unit).

Often those contracts result in parties involved receiving renewable energy certificates ('RECs').

Answer

- (1) Shall a matter included in the financial statements of the undertaking but being outside of its value chain be reported in the undertaking's financial materiality assessment?**

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A transaction or contract included in the financial statements and the sustainability matter related to it cannot be considered outside the value chain. So, a PPA be it physical or virtual is considered as being in own operations (noting that: value chain comprises upstream and downstream value chain as well as own operations, see Annex II Acronyms and glossary of terms).

Financial materiality in the sustainability statement includes items that arise from the undertaking's own operations and items that arise in its value chain.

A matter is material for inclusion in the sustainability statement from a financial materiality perspective, when it generates risks or opportunities that have a material influence or could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term (see ESRS 1 paragraph 49).

(2) More specifically: There is uncertainty whether a PPA (Power Purchase Agreement) would enter the scope of the value chain of the undertaking. More specifically, 1) in the case of a VPPA 2) in the case of a DPPA

A counterparty to the power purchase agreement is connected with the undertaking's activities (see ESRS 1 paragraph 63).

A physical-PPA results in the delivery of energy, and as it relates to indirect emissions, falls under Scope 2 emissions under the GHG Protocol.

A virtual-PPA is a financial instrument resulting in the exchange of cash often combined with certificates to affect the energy mix of the undertaking. As this is part of the undertaking's activities (to manage its energy costs or to obtain Guarantees of Origin (or Energy Attribute Certificates (EAC)), this is part of its own operations and not its value chain. The purchased Guarantees of Origin may ultimately form part of categorisation of Scope 2 disclosures under ESRS E1 whether surrendered or not. For answering this question please note that the answer does not relate to the relationship between the undertaking and the party delivering physical energy that often exists in the three-party relationship involving virtual-PPAs.

As the substance of the contracts differ between a physical and a virtual PPA, the undertaking's material impacts on people and environment and the material effects of sustainability matters on the undertaking's development, performance and condition might also differ.

IG 2 Value chain FAQ 2: *Are financial assets (loans, equity and debt investments) considered business relationships that trigger VC information?* states: 'Business relationships and value chain as defined in Annex II Acronyms and Glossary of Terms do not exclude any types of activities and business relationships.'

ID 855 – Financial materiality and time horizon

Category

Cross-cutting

Question asked

What is the role of time horizon (short, medium or long) in the materiality assessment of risks and opportunities?

ESRS Reference

ESRS 1 chapter 3.5 *Financial materiality*; paragraphs AR 14 and AR 15; chapter 6.4 *Definition of short-, medium- and long-term for reporting purposes*; ESRS E1 paragraphs AR 67 and 68

Key terms

Time horizon; financial materiality

Background

The question received: ‘*When assessing risks and opportunities from a financial perspective, how is it possible to integrate the variable of time horizon (e.g. short, medium or long) in the evaluation of magnitude/probability of that risk or opportunity?*’ was rephrased to the above for clarity.

ESRS 1 paragraph AR 14 states: ‘The **identification** of risks and opportunities that affect or could reasonably be expected to affect the undertaking’s financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term is the starting point for financial materiality assessment. In this context, the undertaking shall consider:

- (a) the existence of dependencies on natural and social resources as sources of financial effects (see paragraph 50);
- (b) their classification as sources of:
 - i. risks (contributing to negative deviation in future expected cash inflows or increase in deviation in future expected cash outflows and/or negative deviation from an expected change in capitals not recognised in the financial statements); or
 - ii. opportunities (contributing to positive deviation in future expected cash inflows or decrease in deviation in future cash outflows and/or positive deviation from expected change in capitals not recognised in financial statements).

ESRS 1 paragraph AR 15 states: ‘Once the undertaking has identified its risks and opportunities, it shall determine which of them are **material for reporting**. This shall be based on a combination of (i) the **likelihood of occurrence** and (ii) the **potential magnitude** of financial effects determined on the basis of appropriate thresholds. In this step it shall consider the contribution of those risks and opportunities to financial effects in the short-, medium- and long-term based on:

- (a) scenarios /forecasts that are deemed likely to materialise; and
- (b) potential financial effects related to sustainability matters deriving either from situations with a below the “more likely than not” threshold or assets/liabilities not, or not yet, reflected in financial statements. This includes:
 - i. potential situations that following the occurrence of future events may affect cash flow generation potential;
 - ii. capitals that are not recognised as assets from an accounting and financial reporting perspective but have a significant influence on financial performance, such as natural, intellectual (organisational), human, social and relationship capitals; and
 - iii. possible future events that may have an influence on the evolution of such capitals.

ESRS E1 paragraph AR 67 states: ‘67. Material climate-related physical risks and transition risks may affect the undertaking’s financial position (e.g., owned assets, financially-controlled

leased assets, and liabilities), performance (e.g., potential future increase/decrease in net revenue and costs due to business interruptions, increased supply prices resulting in potential margin erosions), and cash flows. The low probability, high severity and long-term time horizons of some climate-related physical risk exposures and the uncertainty arising from the transition to a sustainable economy mean that there will be associated material anticipated financial effects that are outside the scope of the requirements of applicable accounting standards.

ESRS E1 paragraph 68 states. “Currently, there is no commonly accepted methodology to assess or measure how material physical risks and transition risks may affect the undertaking’s future financial position, financial, performance and cash flows. Therefore, the disclosure of the financial effects (as required by paragraphs 64, 66 and 67) will depend on the undertaking’s internal methodology and the exercise of significant judgement in determining the inputs, and assumptions needed to quantify their anticipated financial effects.’

Answer

Note for the SRB

An **SRB member** (in the context of the SRB WG) objected and commented that this ID should not be published as an Explanation but as an IG, in order to allow stakeholders to provide feedback.

The **EFRAG SR TEG** discussed the necessity to develop an IG as well, but reached a consensus on the fact that the current text reflects the content of ESRS and IFRS AR on the matter as described in the background, as such it can be issued as an Explanation.

A sustainability matter is material from a financial perspective if it generates risks or opportunities that have a material influence or could reasonably be expected to have a material influence, on the undertaking’s development, financial position, financial performance, cash flows, access to finance or cost of capital **over the short-, medium- or long-term** (ESRS 1 paragraph 49). When assessing a risk or opportunity for (financial) materiality the undertaking considers the perspective of the investors (ESRS 1 paragraph 48).

The assessment ‘... shall be based on a combination of (i) the **likelihood** of occurrence and (ii) the potential **magnitude** of financial effects determined on the basis of appropriate thresholds.’ (see ESRS 1 paragraph AR 15).

The time horizon may affect the **magnitude** of a financial effect via the discounting of financial effects expected to arise at a future date. Financial effects are generally assessed by investors for their magnitude in terms of net present value. The consideration of the time horizon is based on the time-value of money / the discounted cash-flow method in line with investors’ information needs: a cash-inflow / (cash-outflow) is worth more / (less) now, than the same cash-flow at a future date due to its earnings potential in the interim.

However, there are cases when effects that are expected to arise in the long term and/or more uncertain financial effects, should be assessed based on the undiscounted expected amounts. The longer the time horizon, the more uncertain is its outcome. There might be situations when discounting might make figures irrelevant or the financial effects might be - due to their uncertainty of occurrence in either the short-, medium- or long-term - not accessible to discounting (e.g., a flooding in an area exposed to it) but the undiscounted financial effects would nevertheless be relevant for investors. This is also acknowledged in ESRS E1 Disclosure Requirement E1-9 paragraphs 67 and 68 for anticipated financial effects:

‘67. ... The low probability, high severity and long-term time horizons of some climate-related physical risk exposures and the uncertainty arising from the transition to a

Log of explanations

sustainable economy mean that there will be associated material anticipated financial effects that are outside the scope of the requirements of applicable accounting standards.

68. Currently, there is no commonly accepted methodology to assess or measure how material physical risks and transition risks may affect the undertaking's future financial position, financial, performance and cash flows.'

See also IFRS S1 B 24 (cited below in the Supporting material): 'For example, this might happen if information about a particular sustainability-related risk or opportunity is highly scrutinised by primary users of an entity's general purpose financial reports'.

Judgements, estimates and assumption made when considering time value of money shall consider connectivity of information (see ESRS 1 chapter 9.2 *Connected information and connectivity with financial statements*) noting that when measuring assets or liabilities in financial statements time value of money is often considered.

Time horizon may also affect the assessment of **likelihood** of a financial effect. When looking at the likelihood of financial effects, factoring the time horizon may have conceptually different effects. There are instances where a higher likelihood is associated with a specific time horizon. Consider the risk of impairing an asset due to the end of its useful life for a potential ban of a specific technology starting from a given period in the future. The likelihood of a risk arising might be affected by whether the ban is expected in the near or in the further future. However, if the ban is already decided (there is no uncertainty), the financial effect is not affected by likelihood (probability of occurrence is 100%) and the time horizon only affects the magnitude (not the likelihood).

In other instances, the longer the time horizon, the higher the likelihood of an event happening (the higher the likelihood of the associated risk or opportunity). For example, a flooding or a situation of water stress is less likely to occur during the short-term one-year time horizon as compared to the longer mid-term and long-term time horizons.

Supporting material

IFRS S1 *General Requirements for Disclosure for Sustainability-related Financial Information* B19 – B24 states:

Identifying material information

- B19 Materiality judgements are specific to an entity. Consequently, this Standard does not specify any thresholds for materiality or predetermine what would be material in a particular situation.
- B20 To identify material information about a sustainability-related risk or opportunity, an entity shall apply, as the starting point, the requirements of the IFRS Sustainability Disclosure Standard that specifically applies to that sustainability-related risk or opportunity. In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, the entity shall apply the requirements on sources of guidance specified in paragraphs 57–58. Those sources specify information, including metrics, that may be relevant to a particular sustainability-related risk or opportunity, to a particular industry or in specified circumstances.
- B21 An entity shall assess whether the information identified in applying paragraph B20, either individually or in combination with other information, is material in the context of the entity's sustainability-related financial disclosures taken as a whole. In assessing whether information is material, an entity shall consider both quantitative and qualitative factors. For example, an entity might consider the magnitude and the nature of the effect of a sustainability-related risk or opportunity on the entity.

- B22 In some cases, IFRS Sustainability Disclosure Standards require the disclosure of information about possible future events with uncertain outcomes. In judging whether information about such possible future events is material, an entity shall consider:
- (a) the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows over the short, medium and long term (referred to as 'the possible outcome'); and
 - (b) the range of possible outcomes and the likelihood of the possible outcomes within that range.
- B23 When considering possible outcomes, an entity shall consider all pertinent facts and circumstances. Information about a possible future event is more likely to be judged as being material if the potential effects are significant and the event is likely to occur. However, an entity shall also consider whether information about low-probability and high-impact outcomes might be material either individually or in combination with information about other low-probability and high-impact outcomes. For example, an entity might be exposed to several sustainability-related risks, each of which could cause the same type of disruption—such as disruption to the entity's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.
- B24 If a **possible future event** is expected to affect an entity's cash flows, but only **many years in the future**, information about that event is usually less likely to be judged material than information about a possible future event with similar effects that are expected to occur sooner. However, in some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of the magnitude of the potential effects of the future event or the timing of that event. For example, this might happen if information about a particular sustainability-related risk or opportunity is highly scrutinised by primary users of an entity's general purpose financial reports.

ID 870 – Materiality threshold for group company

Category

Cross-cutting

Question asked

Is it technically possible to identify consolidated issues and establish a "consolidated" materiality matrix for a group comprising several companies operating in various sectors of activity by averaging the issues?

ESRS Reference

ESRS 1 chapter 3 Double materiality as the basis for sustainability disclosures and paragraph 102

Key terms

Consolidated reporting

Background

ESRS 1 paragraph 102 states: 'When the undertaking is reporting at a consolidated level, it shall perform its assessment of material impacts, risks and opportunities for the entire consolidated

group, regardless of its group legal structure. It shall ensure that all subsidiaries are covered in a way that allows for the unbiased identification of material impacts, risks and opportunities. Criteria and thresholds for assessing an impact, risk or opportunity as material shall be determined based on chapter 3 of this Standard.'

Answer

No, when assessing for materiality the impacts, risks and opportunities of different subsidiaries operating in different sectors, they should not be averaged but assessed in their own right. This is because the assessment of material impacts, risks and opportunities is agnostic whether the business activities are conducted in a group comprising several subsidiaries operating in various sectors of activity or whether those same business activities are all conducted by one legal entity being active in various sectors.

As stated in ESRS 1 paragraph 102 'when the undertaking is reporting at a consolidated level, it shall perform its assessment of material impacts, risks and opportunities for the entire consolidated group, regardless of its group legal structure. ...'.

IG 1 Materiality assessment states in paragraph 125 in respect of thresholds for impacts, risk or opportunities of subsidiaries operating in various sectors: 'When performing the materiality assessment at a group level, paragraph 103 [of ESRS 1] does not require the adoption for a given sustainability matter of a common threshold that is the same for the group in its entirety but rather to adopt an approach that is at the same time consistent across the whole group and unbiased, i.e., able to capture the specificities that may exist in a specific subsidiary.'

IG 1 Materiality assessment states in paragraph 128 for matters assessed to be material for some subsidiaries in isolation but not for the group in its entirety: 'Conversely, in addition to disclosing information about matters that are material for the group in its entirety, there may be situations where a matter is assessed to be material for some subsidiaries in isolation but, despite the aggregation of data of such subsidiaries, the matter is assessed as not material for the group in its entirety.'

Reference is made to IG 1 Materiality assessment chapter 3.6.3 *Consideration for groups and subsidiaries* and FAQ 13: *Performing the impact materiality assessment when the undertaking operates in different sectors* mentioning a top-down, a bottom-up approach, or a combination of the two approaches for the materiality assessment in group situations.

ID 923 – Phase-in entity specific disclosures

Category

Cross-cutting

Question asked

Do undertakings need to include entity-specific disclosures for the first three years of reporting?

ESRS Reference

ESRS 1 paragraph 131

Key terms

Phase-in provisions; entity-specific disclosures

Background

ESRS 1 paragraph 131 states: 'When defining its entity-specific disclosures, the undertaking may adopt transitional measures for their preparation in the first three annual sustainability statements under which it may as a priority:

- (a) introduce in its reporting those entity-specific disclosures that it reported in prior periods, if these disclosures meet or are adapted to meet the qualitative characteristics of information referred to under chapter 2 of this Standard; and
- (b) complement its disclosures prepared on the basis of the topical ESRS with an appropriate set of additional disclosures to cover sustainability matters that are material for the undertaking in its sector(s), using available best practice and/or available frameworks or reporting standards, such as IFRS industry-based guidance and GRI Sector Standards.

Answer

Yes, entity specific disclosures are required for the first three years of reporting the sustainability information.

ESRS 1 paragraph 131 only gives a three-year transition period for the preparation of the entity-specific disclosures under which the undertaking may as a priority derive those measures from ESRS 1 paragraph (a) or (b). ESRS paragraph 131 does not provide a phase-in for entity-specific provisions in general.

Reference is made to ESRS 1 chapter 10.2 *Transitional provision related to chapter 5 value chain taking precedence*.

ID 952 – Metrics – rounding and decimals; materiality of information

Category

Cross-cutting

Question asked

To how many decimals should a percentage be rounded? And for other data points that ask for "decimal", how many decimals are expected?

ESRS Reference

All numerical datapoints required by ESRS

Key terms

Decimals, materiality

Background

ESRS 1 paragraph 34 states: 'When disclosing information on **metrics** for a material **sustainability matter** according to the Metrics and Targets section of the relevant topical ESRS, the undertaking:

- (c) shall include the information prescribed by a Disclosure Requirement if it assesses such information to be material; and
- (d) may omit the information prescribed by a datapoint of a Disclosure Requirement if it assesses such information to be not material and concludes that such information is not needed to meet the objective of the Disclosure Requirement.'

Answer

ESRS does not have specific rules for rounding or prescribe the number of decimals to be used for percentages.

ESRS 1 paragraph 34 clarifies that materiality of information applies to metrics. Accordingly, materiality of information also applies to rounding and decimals to be used for a percentage-metric. The undertaking may omit decimals and use rounding if it considers the information not conveyed through omitting decimals and using rounding to be not material.

Materiality of information needs to be decided on a case-by-case basis depending on the fact pattern such as, the size of the company, the metric to be disclosed and the materiality of the topic.

ID 968 – Ecolabel

Category

Cross-cutting

Question asked

If a company's metric is verified by an Ecolabel, can the Ecolabel be mentioned as an external body?

ESRS Reference

ESRS 2 paragraph 77 (b)

Key terms

Ecolabel; external body

Background

For information on 'Ecolabel' please refer for example to [Ecolabel](#).

ESRS 2 paragraph 77 states: 'For each metric, the undertaking shall: ...

- (b) disclose whether the measurement of the metric is validated by an external body other than the assurance provider and, if so, which body

Answer

Yes, if a company's metric is verified by an Ecolabel, and assuming that the Ecolabel is not an internal body of the undertaking, the Ecolabel can be mentioned as an external body.

According to ESRS 2 paragraph 77 (b), the undertaking is required to disclose whether the measurement of the metric is validated by an external body other than the assurance provider and to specify which body.

ID 1013 - Variable remuneration potential discrepancy between ESRS 2 and ESRS E1?

Category

x-cutting

Question asked

- (1) Is the ESRS 1 Disclosure Requirement GOV-3 on 'the proportion of variable remuneration dependent on sustainability-related targets and/or impacts' (ESRS 2 paragraph (d)) calculated as a percentage of:
 - (a) variable remuneration;
 - (b) fixed remuneration; or
 - (c) total remuneration (fixed and variable)?
- (2) Is the percentage to be disclosed under ESRS E1 Disclosure requirement related to ESRS 2 GOV-3 *Integration of sustainability-related performance in incentive schemes* calculated on the same denominator as under question 1) above?

ESRS Reference

ESRS 2 paragraph 29 (d) and ESRS E1 paragraph 13

Key terms

remuneration; remuneration, fixed and variable; annual total remuneration

Background

The question received: 'in E1.GOV-3_02 requirement, could you please precise whether the required % of current remuneration related to sustainability shall be calculated: (i) as a % of variable remuneration, (ii) as a % of fixed remuneration, (iii) as a % of total remuneration (fixed + variable)' has been modified to the above for clarity. The submitter provided the following answer to the question: 'Drawing a parallel between ESRS E1.GOV-3_02 and the ESRS 2 GOV-3_05, I would assume the % of current remuneration related to sustainability asked shall be calculated as a % of variable remuneration.'

ESRS 2 paragraph 29 states: 'The undertaking shall disclose: ...

- (d) the **proportion of variable remuneration** dependent on sustainability-related targets and/or impacts; ...'

ESRS E1 paragraph 13 states: 'The undertaking shall disclose ... the **percentage of remuneration** recognised in the current period that is linked to climate-related considerations and ...'

Annual total remuneration is defined in the Annex II Acronyms and glossary of terms: 'Annual total remuneration to own workforce includes salary, bonus, stock awards, option awards, non-equity incentive plan compensation, change in pension value, and nonqualified deferred compensation earnings provided over the course of a year.'

Answer

- (1) *Is the ESRS 1 Disclosure Requirement GOV-3 on 'the proportion of variable remuneration dependent on sustainability-related targets and/or impacts' (ESRS 2 paragraph 29 (d)) calculated:*
 - (d) *as a percentage of variable remuneration;*
 - (e) *as a percentage of fixed remuneration; or*
 - (f) *as a percentage of total remuneration (fixed and variable)?*

The ESRS 2 paragraph 29 (d) metric shall be calculated as (a) a percentage of variable remuneration.

Log of explanations

ESRS 2 paragraph 29 (d) requires the 'proportion of variable remuneration dependent on sustainability-related targets and/or impacts' to be disclosed. According to this wording the nominator is the proportion of the variable remuneration dependent on sustainability-related targets and/or impacts, and the denominator is the variable remuneration.

Though not explicitly stated in ESRS 2 Disclosure Requirement GOV-3 (paragraph 29 (d)) it shall be assumed that remuneration is the amount recognized in the current period, i.e., the amount recognized as expense (i.e., independent on whether paid out or not) under the applicable accounting GAAP in the financial statements considering connectivity with financial statements, in line with the elements listed in the definition of 'annual total remuneration' in Annex II, and consistent with ESRS E1 paragraph 13 which explicitly refers to the 'remuneration recognized'.

(2) Is the percentage to be disclosed under ESRS E1 Disclosure requirement related to ESRS 2 GOV-3 Integration of sustainability-related performance in incentive schemes calculated on the same denominator as under question 1) above?

No, it is not. The ESRS E1 paragraph 13 metric shall be calculated as a percentage of total remuneration.

ESRS E1 paragraph 13 requires the 'percentage of remuneration recognised' to be disclosed. The phrase used requires that the denominator is the remuneration recognised, accordingly the total of fixed and variable remuneration recognised, and the nominator is the 'remuneration recognised ... that is linked to climate-related considerations'.

To note: There is no reason that the term 'remuneration' as used in both ESRS 1 paragraph 29 and ESRS E1 paragraph 13 in respect of the administrative, management, and supervisory bodies is not to be read as being consistent with the definition of 'annual total remuneration' as defined in the Annex II Acronyms and glossary of terms in respect of own workforce.

For the attention of SRB:

The ESRS E1 requirement is in line with the IFRS S2 equivalent ESRS E1 para 13 is a specification of ESRS 2 para 29 therefore the expectation would be (and the intent of the authors of ESRS E1 also was) that the percentage is based on variable remuneration alone.

TEG considered that it would be best to align ESRS 2 and ESRS E1, unless this would create an issue of interoperability.

Environmental

ID 283 – Is waste incineration a disposal operation

Category

Environment

Question asked

Is incineration with energy recovery considered waste diverted or waste disposed?

ESRS reference

ESRS E5 paragraph 37

Key terms

Waste; waste incineration; waste recovery; waste disposal

Background

ESRS E5 paragraph 37 states: 'The undertaking shall disclose the following information on its total amount of waste from its own operations, in tonnes or kilogrammes:

- (a) the total amount of waste generated;
- (b) the total amount by weight diverted from disposal, with a breakdown between hazardous waste and non-hazardous waste and a breakdown by the following recovery operation types:
 - i. preparation for reuse;
 - ii. recycling; and
 - iii. other energy recovery;
- (c) the amount by weight directed to disposal by waste treatment type and the total amount summing all three types, with a breakdown between hazardous waste and non-hazardous waste. The waste treatment types to be disclosed are:
 - i. incineration;
 - ii. landfill; and
 - iii. other disposal operations;
- (a) the total amount and percentage of non-recycled waste.'

Waste is defined in Annex II Glossary of acronyms and terms as: 'Any substance or object which the holder discards or intends or is required to discard.' This definition refers to Article 3(1) of the Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 on waste and repealing certain Directives (Waste Framework Directive or WFD) the WFD.

Incineration is defined in Annex II Glossary of acronyms and terms as: 'The controlled burning of waste at high temperature with or without energy recovery.'

Recovery is defined in Annex II Glossary of acronyms and terms as: 'Any operation the principal result of which is waste serving a useful purpose by replacing other materials which would otherwise have been used to fulfil a particular function, or waste being prepared to fulfil that function, in the plant or in the wider economy.' This definition refers to article 3(15) of the WFD. Likewise, article 3(15a) of the WFD on the definition of material recovery states that "material recovery" means any recovery operation, other than energy recovery and the reprocessing into materials that are to be used as fuels or other means to generate energy'.

In addition, ESRS E5 Disclosure Requirement 5-1 requires an undertaking to consider whether and how its policies address the waste hierarchy (as per Art. 4(1) of the WFD: (a) prevention; (b) preparing for re-use; (c) recycling; (d) other recovery, e.g., energy recovery; and (e) disposal.

The WFD also provides a list of Disposal and Recovery Operations in its Annex I and Annex II, respectively. While incineration is included in Annex I of disposal operations ("D10 Incineration on land"), Annex II on recovery includes operation "R1 Use principally as fuel or other means to generate energy". This category potentially includes co-incineration where wastes are burned for their fuel content and a note is also included allowing the inclusion of Municipal Solid Waste (MSW) incineration provided that a certain level of energy efficiency is achieved.

Answer

Incineration is to be treated as a recovery operation, if it meets the conditions to be considered as an 'R1 Use principally as fuel or other means to generate energy' operation, according to Annex II of the Waste Framework Directive. In this case, it shall be considered as an 'other energy recovery' under ESRS E5 paragraph 37 (b) (iii).

If the conditions in which incineration occurs are conducive to its classification as a 'D10 incineration on land' operation (Annex II of the Waste Framework Directive), then it shall be classified as a disposal operation.

Supporting material

Please see also [Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 on waste and repealing certain Directives](#) (Waste Framework Directive or WFD).

ID 472 – Major incidents and deposits

Question asked

When are incidents and deposits considered to be 'major'? Is there a qualitative or quantitative threshold to consider?

ESRS reference

Disclosure Requirement E2-6 paragraph 40 (b)

Key terms

Anticipated **financial effect; major incident; deposit**

Background

ESRS E2 paragraph 38 states: 'The objective of this Disclosure Requirement is to provide an understanding of: (a) anticipated financial effects due to material risks arising from pollution - related impacts and dependencies and how those risks have (or could reasonably be expected to have) a material influence on the undertaking's financial position, financial performance, and cash flows, over the short, medium and long term. ...'

ESRS E2 paragraph 39 states: 'The disclosure shall include: (a) a quantification of the anticipated financial effects in monetary terms before considering pollution-related actions, or where not possible without undue cost or effort, qualitative information. ...'

ESRS E2 paragraph 40 states: 'The information provided under paragraph 39 (a) shall include: ...

- (b) **operating and capital expenditures** incurred in the reporting period in conjunction with **major incidents and deposits**'.

ESRS E2 paragraph 15 states: 'The undertaking shall indicate, with regard to its own operations and its upstream and downstream value chain, whether and how its policies address the following areas where material: . . .(c) avoiding incidents and emergency situations'.

ESRS E2 paragraph 41 states: 'The undertaking shall disclose any relevant contextual information including a description of material incidents and deposits whereby pollution had negative impacts on the environment and/or is expected to have negative effects on the undertaking's financial cash flows, financial position and financial performance with short-, medium- and long-term time horizons'.

Log of explanations

The Industrial Emissions Directive, recital 16 stipulates that: ‘The impact of pollution, including when caused by incidents or accidents, can extend beyond the territory of a Member State. In such cases, without prejudice to Directive 2012/18/EU of the European Parliament and of the Council (9), limiting the consequences for human health and the environment of incidents or accidents and preventing further possible incidents or accidents requires prompt exchange of information and close coordination between the competent authorities of the Member States which are or could be affected by such events. Therefore, in the event of any incident or accident significantly affecting the environment or human health in another Member State, exchange of information and transboundary and multidisciplinary cooperation between the affected Member States should be fostered to limit the consequences for the environment and human health and to prevent further possible incidents or accidents’.

The Industrial Emissions Directive, Art. 7 (b) adds that ‘in the event of any incident or accident significantly affecting the environment’, “the operator immediately takes the measures to limit the consequences for human health or the environment and to prevent further possible incidents or accidents’.

The Seveso-III Directive, Art. 3 paragraph 13 defines a **major accident** as ‘an occurrence such as a major emission, fire, or explosion resulting from uncontrolled developments in the course of the operation of any establishment covered by this Directive, and leading to serious danger to human health or the environment, immediate or delayed, inside or outside the establishment, and involving one or more dangerous substances’.

Answer

ESR do not provide a threshold for distinguishing major incidents and deposits from regular occurrences. The evaluation of incidents should, in all cases, be based on the undertaking’s materiality assessment and incidents identified as major are likely connected to material impacts and risks and, therefore, likely to be identified as material. At the same time, incidents of lower scale can carry material impacts or financial risks and, therefore, be assessed by the undertaking as material, too.

It is also to be noted that based on the provisions of materiality of information of ESRS 1 paragraph 34 the disclosure of **operating and capital expenditures** incurred in the reporting period in conjunction with **major incidents and deposits** as required by ESRS E2 paragraph 40 (b) depends more on whether the expenditures are financially material and not on what kind of major incidents or deposits caused them.

The undertaking may also need to consider the provisions in the Seveso-III Directive on major accidents, as well as those in the IED 2.0 on incidents and accidents that significantly affect the environment. The IED, in particular, stipulates that incidents or accident may significantly affect the environment, and may become a national matter or even extend beyond national borders. The Seveso-III Directive (used in the development of ESRS E2) explicitly defines major accident and includes examples that can be considered for reporting. In the cases in which an undertaking's incidents or accidents fall within the scope of major or significant incidents or accidents according to existing law (i.e. IED 2.0 and Seveso-III Directive), such incidents and accidents would also be considered as major incidents according to ESRS. Should any of the undertaking's facilities or installations not be covered by the IED 2.0 or the Seveso-III Directive, the undertaking can, nonetheless, consider the definitions provided in those Directives when applying its materiality assessment.

Supporting material

[Directive \(EU\) 2024/1785 of the European Parliament and of the Council of 24 April 2024 amending Directive 2010/75/EU of the European Parliament and of the Council on industrial](#)

[emissions \(integrated pollution prevention and control\) and Council Directive 1999/31/EC on the landfill of waste \(IED 2.0\).](#)

[Directive 2012/18/EU of the European Parliament and of the Council of 4 July 2012 on the control of major-accident hazards involving dangerous substances \(Seveso-III Directive\).](#)

[Best Available Techniques \(BAT\) Reference Document for Waste Treatment, EC \(2018\).](#)

ID 531 – Base year

Category

Environment

Question asked

If the company has an intensity emission reduction target already set with a different base year than ESRS recommends (e.g.: 2021), but no absolute target yet, is it ok to use the same base year as for the intensity target, although it does not follow the ESRS recommendation?

Reference

ESRS E1 paragraphs 34 (c) and (d), and AR 25

Key terms

Base year, intensity emission target

Background

ESRS E1 paragraph 34 states: 'If the undertaking has set GHG emission reduction targets, ESRS 2 MDR-T and the following requirements shall apply: ...

- (c) the undertaking shall disclose its current base year and baseline value, and from 2030 onwards, update the base year for its GHG emission reduction targets after every five-year period thereafter. The undertaking may disclose the past progress made in meeting its targets before its current base year provided that this information is consistent with the requirements of this Standard;
- (d) GHG emission reduction targets shall at least include target values for the year 2030 and, if available, for the year 2050. From 2030, target values shall be set after every 5year period thereafter; ...'

ESRS E1 paragraph AR 25 states: 'When disclosing the information required under paragraph 34(c) on base year and baseline value: ...

- (d) the baseline value and base year shall not be changed unless significant changes in either the target or reporting boundary occur. In such a case, the undertaking shall explain how the new baseline value affects the new target, its achievement and presentation of progress over time. To foster comparability, when setting new targets, the undertaking shall select a recent base year that does not precede the first reporting year of the new target period by longer than 3 years. For example, for 2030 as the target year and a target period between 2025 and 2030, the base year shall be selected from the period between 2022 and 2025; ...'

Answer

The following situations might arise:

[The undertaking has no target](#)

ESRS E1 paragraph AR 25 (b) does not set a recommendation but a methodological (application) requirement to set a new target base year, ‘... that does not precede the first reporting year of the new target period by longer than 3 years. ...’. In other words, the base year must be one of the last three years in which the undertaking has reliably measured its GHG emissions, while undertaking decarbonization actions. If an undertaking has a GHG emission reduction target, it shall disclose in absolute value the GHG emission reduction target and its current target base year and target baseline value.

GHG emission reduction targets shall at least include target values for the year 2030 (ESRS E1 paragraph 34 (d)). For example, for 2030 as the target year and a target period between 2025 and 2030, the base year shall be selected from the period between 2022 and 2025. In accordance with ESRS E1 paragraph AR 25, to set a target with a baseline figure in 2021, the target would have to cover the period 2024 to 2030, with 2024 being the first year for reporting on the new target.

For undertakings with a reduction plan in progress at the time the CSRD comes into force, there is no need to modify the targets if they meet the requirement of ESRS E1. The plans will be revised and aligned with 2023 (reporting year) once the reduction period is over.

The undertaking already has a target

If an undertaking already has GHG emission reduction targets in place which have been publicly disclosed, these should not be updated for the purposes of CSRD requirements. The target level and base year can remain unchanged, until the target is required to be updated, e.g. due to significant changes in scope or after 2030. Information on these targets should be reported in line with CSRD requirements. If an undertaking’s pre-existing targets are intensity targets, the CSRD requirements do not require a new absolute target to be set. Rather, they require, for each intensity target, an associated absolute target value to be disclosed. This associated absolute value would be based on the intensity target reduction specified for the pre-existing target.

Case of early achievement:

If an undertaking achieves its target (past target period) earlier than expected, the base year may be older, provided that this old base year meets the ESRS E1-4 requirements.

Linkage to the implementation guidance on transition plan:

This question will also be covered in the transition plan implementation guidance being developed by EFRAG.

ID 653 – Microplastics - tires wear

Category

Environment

Question asked

Shall the amount of microplastic that is generated due to tires wear be reported?

ESRS Reference

ESRS E2 (Disclosure Requirement E2-4) paragraphs 28 (b) and AR 20

Key terms

Microplastics; tires wear

Background

ESRS 1 paragraph 11 states: 'In addition to the disclosure requirements laid down in the three categories of ESRS, when an undertaking concludes that an impact, risk or opportunity is not covered or not covered with sufficient granularity by an ESRS but is material due to its specific

facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking's sustainability-related impacts, risks or opportunities. Application requirements AR 1 to AR 5 provide further guidance regarding entity-specific disclosures'.

ESRS 1 paragraph 25 states: 'Performing a **materiality assessment** (see sections 3.4 Impact materiality and 3.5 Financial materiality) is necessary for the undertaking to identify the material impacts, risks and opportunities to be reported'.

EFRAG IG 1 'Materiality assessment' paragraph 27 states: 'ESRS 1 sets criteria for the materiality assessment, but not specific thresholds to determine when a matter or information is material or not. Therefore, the assessment requires the **exercise of judgement**. The undertaking needs to set thresholds based on the ESRS 1 criteria, as well as its own specific facts and circumstances . . . '.

ESRS E2-4 paragraph 28 states: 'The undertaking shall disclose the **amounts of . . . (b) microplastics generated** or used by the undertaking'.

ESRS E2-4 paragraph AR 20 states: 'The information to be provided on microplastics under paragraph 28 (b) shall include microplastics that have been generated or used during production processes or that are procured, and that leave the undertaking's facilities as emissions, as products, or as part of products or services. Microplastics may be **unintentionally produced** when **larger pieces of plastics like car tires** or synthetic textiles **wear and tear** or may be deliberately manufactured and added to products for specific purposes (e.g., exfoliating beads in facial or body scrubs).'

IG 2 'Value chain' paragraph 185 states for ESRS E2-4: 'AR 20 refers to procurement of microplastics'.

Answer

It depends on the outcome of the undertaking's materiality assessment including how it applies appropriate thresholds to determine the information it discloses on metrics (see ESRS 1 paragraph 34).

The materiality assessment of microplastics should cover the whole value chain, including but not limited to own operations (see also ESRS E2 AR 20), and cover both primary microplastics (designed to be used in products or manufacturing) and secondary microplastics (generated from the breakdown of larger plastics, e.g. tires).

If the undertaking identifies microplastics as a material topic in its value chain, e.g. the downstream value chain, it shall provide, if needed (see ESRS 1 paragraph 11 and AR 1 to 5), additional disclosures on an entity-specific basis to enable users to understand its impacts, risks and opportunities (see also IG Value Chain paragraph 185).

If material, then according to ESRS E2-4 undertakings are to report on the amounts of microplastics that are unintentionally generated when larger pieces of plastics, such as car tires, wear and tear.

Please refer to ID 411 *Microplastics* for further clarifications on the value chain coverage.

Supporting material

[EFRAG IG 1: Materiality assessment implementation guidance](#) (2024).

[EFRAG IG 2: Value chain implementation guidance](#) (2024).

ID 734 – Disclosure of progress in meeting climate-related targets

Category

Environment

Question asked

Is the understanding correct that undertakings can add the amount of emissions reduced before their new base year to the actual emissions of the new base year and therefore suggest that the past emissions haven't been realized?

ESRS reference

ESRS E1 paragraphs 34 (c) and AR 25 (d)

Key terms

Progress, climate-related targets

Background

ESRS E1 paragraph 34 (c) states: 'If the undertaking has set GHG emission reduction targets, ESRS 2 MDR-T and the following requirements shall apply: ...

- (c) the undertaking shall disclose its current base year and baseline value, and from 2030 onwards, update the base year for its GHG emission reduction targets after every five-year period thereafter. The undertaking may disclose the past progress made in meeting its targets before its current base year provided that this information is consistent with the requirements of this Standard; ...'.

ESRS E1 paragraph AR 25 (d) states: 'When disclosing the information required under paragraph 34 (c) on base year and baseline value: ...

- (g) when presenting climate-related targets, the undertaking may disclose the progress in meeting these targets made before its current base year. In doing so, the undertaking shall, to the greatest extent possible, ensure that the information on past progress is consistent with the requirements of this Standard. In the case of methodological differences, for example, regarding target boundaries, the undertaking shall provide a brief explanation for these differences.'

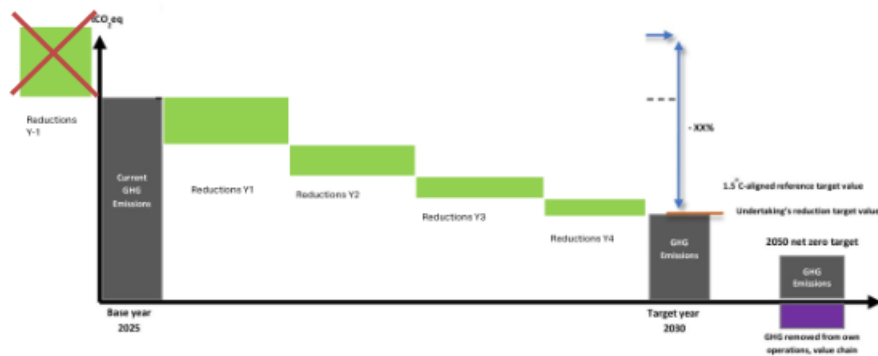
Answer

No, an undertaking cannot add the amount of emissions reduced before its new base year to the actual emissions of the new base year, and therefore suggest that the past emissions haven't been realized.

While undertakings may disclose the progress done in meeting these targets before its current base year, when doing it, undertakings may disclose quantitative and qualitative information, e.g.: disclosure of the amount of the emissions reduced, explanation in case of methodological differences, explanation of alignment with the requirements of the E1 Standard. However, it is not allowed to add previous emission reductions achieved to the new base year emissions, which shall be the ones effectively disclosed under the ESRS for the new base year (with no additions or subtractions).

It is important to note that, even if an undertaking cannot add the amount of emissions reduced before its new base year, this reduction might have an impact on the future targets set by the undertaking as it is linked to the sector emission reduction path.

As an example, assuming that the current (new) base year is 2025, the amount of reductions in Y-1 (i.e., 2024) cannot be added to the 2025 base year as displayed in the following table:



ID 815 – Substances of concern – in articles

Category

Environment

Question asked

The current EU legislation requires to monitor substances of concern in chemicals, but not in articles. If no (or only partial) information (including due to supplier non responsiveness) is available on substances of concern contained in the manufactured articles, what should the company disclose?

ESRS Reference

Disclosure Requirement E2-5 paragraph 34;

Disclosure Requirement E2-5 paragraph AR 28

Key terms

Substances of concern; SoC; procurement; articles

Background

E2 paragraph 15 states: 'The undertaking shall indicate, with regard to its own operations and its upstream and downstream value chain, whether and how its policies address the following areas where material . . .

(b) substituting and minimising the use of substances of concern; and ...'

ESRS E2 paragraph AR 13 states: 'Where actions extend to upstream or downstream value chain engagements, the undertaking shall provide information on the types of actions reflecting these engagements.'

ESRS E2 paragraph AR 19 states: 'The targets may cover the undertaking's own operations and/or the value chain.'

ESRS E2 paragraph 34 states: 'The disclosure required by paragraph 32 shall include the total amounts of substances of concern that are generated or used during the production or that are procured, and the total amounts of substances of concern that leave its facilities as emissions, as products, or as part of products or services split into main hazard classes of substances of concern.'

ESRS E2 paragraph AR 28 states: 'In order for the information to be complete, substances in the undertaking's own operations and those procured shall be included (e.g., embedded in ingredients, semi- finished products, or the final product).'

ESRS 1 paragraph 71 states: 'With reference to policies, actions and targets, the undertaking's reporting shall include upstream and/or downstream value chain information to the extent that those policies, actions and targets involve actors in the value chain. With reference to metrics, in many cases, in particular for environmental matters for which proxies are available, the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its upstream and downstream value chain, especially from SMEs, for example, when calculating the undertaking's GHG Scope 3 emissions'.

ESRS 1 paragraph 34 states: 'When disclosing information on metrics for a material sustainability matter according to the Metrics and Targets section of the relevant topical ESRS, the undertaking: ...

- (b) may omit the information prescribed by a datapoint of a Disclosure Requirement if it assesses such information to be not material and concludes that such information is not needed to meet the objective of the Disclosure Requirement.'

Regulation (EC) No 1907/2006 (REACH), Article 3 defines 'article' as 'an object which during production is given a special shape, surface or design which determines its function to a greater degree than does its chemical composition'. Regulation (EC) No 1907/2006 (REACH), Article 33 on the 'Duty to communicate information on substances in articles' states: '1. Any supplier of an article containing a substance meeting the criteria in Article 57 and identified in accordance with Article 59(1) in a concentration above 0,1 % weight by weight (w/w) shall provide the recipient of the article with sufficient information, available to the supplier, to allow safe use of the article including, as a minimum, the name of that substance. 2. On request by a consumer any supplier of an article containing a substance meeting the criteria in Article 57 and identified in accordance with Article 59(1) in a concentration above 0,1 % weight by weight (w/w) shall provide the consumer with sufficient information, available to the supplier, to allow safe use of the article including, as a minimum, the name of that substance'.

Answer

Concerning substances of very high concern (SVHC) in articles, Regulation (EC) No 1907/2006 (REACH) requires communicating SVHC content where specific thresholds are exceeded.

If substances of concern in articles represent a material topic for the undertaking:

- (b) for the **metrics** disclosure of ESRS E2 paragraph 34, the undertaking shall consider both those within its production processes as well as the ones entering its own operations through procurement as ingredient, semi-finished products, or final products. If the metric cannot be determined through direct data collection, e.g. by obtaining it from suppliers, after making a reasonable effort to do so, it shall be estimated by using proxies. Reference is made to 'ID 504 – *Disclosure Requirements on material metrics when information is not available*; and
- (c) the undertaking shall, in any case, report on the related **policies, actions, and targets** (PAT) it has in place in relation to the material topic. ESRS E2 in particular provides specific indications on the extension of the reporting under the PAT to the value chain. Concerning policies, the undertaking must disclose how (and if) its policies support the substitution and minimisation of the use of substances of concern. This information is to be provided also for its upstream and downstream value chain. With regards to actions, undertakings shall report on upstream and downstream value chain engagements when present. The extension of targets to value chain entities is, however, optional.

To note: Information to be collected from value chain entities can be omitted during a 3 year phase-in period in accordance with ESRS 1 chapter 10.2 *Transitional provision related to chapter 5 Value chain*, unless it is prescribed under EU legislation.

Reference is made to [Draft] Question 29 [ESRS require undertakings to use estimates if they cannot obtain all necessary value chain information after having made reasonable efforts to do so \(ESRS 1, General requirements, paragraph 69\). What constitutes “reasonable effort”?](#) from the European Commission *On the interpretation of certain legal provisions in Directive 2013/34/EU (Accounting Directive)*.

Supporting material

[Regulation \(EC\) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals \(REACH\)](#).

ID 831 – Contractual instruments

Category

Environment

Question asked

Should percentage of contractual instruments be calculated in terms of electricity consumption, not in terms of Scope 2 GHG emissions?

ESRS reference

ESRS E1-6, Application requirement 45 (d)

Key terms

Contractual instruments, Scope 2

Background

ESRS E1 AR paragraph 45 (d) states ‘When preparing the information on gross Scope 2 GHG emissions required under paragraph 49, the undertaking shall: ...

- (d) apply the location-based and market-based methods to calculate Scope 2 GHG emissions and provide information on the share and types of contractual instruments. Location based method quantifies Scope 2 GHG emissions based on average energy generation emission factors for defined locations, including local, subnational, or national boundaries (GHG Protocol, “Scope 2 Guidance”, Glossary, 2015). Market-based method quantifies Scope 2 GHG emissions based on GHG emissions emitted by the generators from which the reporting entity contractually purchases electricity bundled with instruments, or unbundled instruments on their own (GHG Protocol, “Scope 2 Guidance”, Glossary, 2015); in this case, the undertaking may disclose the share of market-based scope 2 GHG emissions linked to purchased electricity bundled with instruments such as Guarantee of Origins or Renewable Energy Certificates. The undertaking shall provide information about the share and types of contractual instruments used for the sale and purchase of energy bundled with attributes about the energy generation or for unbundled energy attribute claims. ...’

Answer

The percentage of contractual instruments is calculated in terms of the Scope 2 activity data – this is the consumption of purchased or acquired electricity. The general expression is:

$$\% \text{ of contractual instruments} = \frac{\text{Electricity consumption backed by contractual instruments}}{\text{Total electricity consumption}}$$

Electricity is used in this context as a shorthand for purchased or acquired electricity, heat, steam, and cooling (as per GHG Protocol). There are different types of contractual instruments such as Guarantees of Origin, Renewable Energy Certificates, direct contracts, etc.

ID 832 – Pollutants emissions – changes over time

Category

Environment

Question asked

How can preparers take "the changes over time" into account when disclosing the amounts of pollutants?

ESRS Reference

Disclosure Requirement E2-4 paragraph 30 (a)

Key terms

Pollution of air, water and soil; microplastics; time; change

Background

ESRS E2 paragraph 30 states: 'The undertaking shall put its disclosure into context and describe:

(a) the **changes over time, ...**'.

ESRS E2 paragraph AR 25 states: 'Where the undertaking's activities are subject to Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions (IED) (67) and relevant Best Available Techniques Reference Documents (BREFs), irrespective of whether the activity takes place within the European Union or not, the undertaking may disclose the following additional information'.

ESRS E4 paragraph 38 states: 'The undertaking may disclose metrics that measure: ...

(b) changes over time (e.g. 1 or 5 years) in the management of the ecosystem . . . '.

ESRS 1 paragraph 77 provides definitions of three main time intervals for the undertaking to adopt: short-term, corresponding to the 'reporting period in its financial statements'; medium-term, lasting 'from the end of the short-term reporting period . . . up to 5 years'; and long-term for periods of 'more than 5 years'.

ESRS 1 paragraph 74 states: 'The undertaking shall establish appropriate linkages in its sustainability statement between retrospective and forward-looking information, when relevant, to foster a clear understanding of how historical information relates to future-oriented information'.

ESRS 2 Disclosure Requirement SBM-3 paragraph 48 (c) (iii) states the undertaking shall disclose: 'the reasonably expected time horizons of the impacts'.

Answer

When disclosing the amounts of pollutants, preparers need to always give due consideration to the ESRS 1 paragraph 77 provision on establishing appropriate linkages with their sustainability

statements between past, present and future information when relevant, to allow for a better understandability of how its historical information relates to current and to future-oriented information.

It is to be noted that the implementation of pollution prevention and pollution control measures, and the adoption of BATs can lead to significant changes over time of the amounts, types and form of pollutant releases which provide relevant contextual information to the disclosure of metrics. As no specific indication is provided on the type of changes that undertakings need to report in regard to pollutants emissions, an approach shall be selected that supports understandability and comparability over time (see ESRS 1 chapter 2 *Qualitative characteristics of information*) and that considers the materiality of the pollution (materiality concept). Additionally, although no specific example is provided for ESRS Disclosure Requirement E2-4, preparers may consider the one given under ESRS Disclosure Requirement E4-5 for metrics on biodiversity, which suggests looking into changes expressed as a variation from one year to the next (short-term) or in 5-year intervals (medium-term).

ID 873 – Transport of removed GHGs

Category

Environment

Question asked

What is the meaning and what to report in "transport of removed GHGs"?

ESRS Reference

ESRS E1 Disclosure Requirement E1-7 paragraph AR 57 (b)

Key terms

GHG removals and storage; transport

Background

ESRS E1 paragraph AR 57 states: 'When disclosing the information on GHG removals and storage from the undertaking's own operations and its upstream and downstream value chain required under paragraphs 56 (a) and 58, for each removal and storage activity, the undertaking shall describe: ...

- (b) whether removal and storage are biogenic or from land-use change (e.g., afforestation, reforestation, forest restoration, urban tree planting, agroforestry, building soil carbon, etc.), technological (e.g., direct air capture), or hybrid (e.g., bioenergy with CO2 capture and storage), and technological details about **the removal, the type of storage and, if applicable, the transport of removed GHGs; ...'**

Answer

ESRS E1 paragraph AR 57 requires a description of 'technological details about the removal, the type of storage and, if applicable, the transport of removed GHGs.' For some removal technologies (BECS, DACS), transport of the captured to the storage is necessary. The technical details of both storage and transportation are included in the technological details relevant to the GHG removals in this example and shall therefore be reported if applicable. For an explanation of GHG removals and storage, please see explanation ID 432 *Net zero target and GHG removals*.

ID 882 – Data availability for biogenic emissions in Scope 3

Category

Environment

Question asked

Can a preparer state that data for biogenic emissions in Scope 3 is 'not available' as it is specifically possible for Scope 2 biogenic emissions?

ESRS Reference

Disclosure Requirement E1-6 AR45 (e) and E1-6 AR46 (j); ESRS 2 Chapter 5.2 *Estimation using sector averages and proxies*

Key terms

Biogenic emissions; Scope 2; Scope 3; data availability; proxies; value chain

Background

According to ESRS E1 AR 45 (e), the undertaking shall 'disclose biogenic emissions of CO₂ carbon from the combustion or biodegradation of biomass separately from the Scope 2 GHG emissions but include emissions of other types of GHG (in particular CH₄ and N₂O). In case the emission factors applied do not separate the percentage of biomass or biogenic CO₂, the undertaking shall disclose this. In case GHG emissions other than CO₂ (particularly CH₄ and N₂O) are not available for, or excluded from, location-based grid average emissions factors or with the market-based method information, the undertaking shall disclose this.'

In addition to scope 2 emissions, ESRS E1 AR 46 (j), requires the undertaking to report biogenic Scope 3 Emissions separately. ESRS E1 paragraph AR 46 (j) states that the undertaking shall 'disclose biogenic emissions of CO₂ from the combustion or biodegradation of biomass that occur in its upstream and downstream value chain separately from the gross Scope 3 GHG emissions, and include emissions of other types of GHG (such as CH₄ and N₂O), and emissions of CO₂ that occur in the life cycle of biomass other than from combustion or biodegradation (such as GHG emissions from processing or transporting biomass) in the calculation of Scope 3 GHG emissions;'

On emissions in the value chain, ESRS 1 paragraphs 69 and 71 states that:

'69. There are circumstances where the undertaking cannot collect the information about its upstream and downstream value chain as required by paragraph 63 after making reasonable efforts to do so. In these circumstances, the undertaking shall estimate the information to be reported about its upstream and downstream value chain, by using all reasonable and supportable information, such as sector-average data and other proxies.' [and]

'71. [...] With reference to metrics, in many cases, in particular for environmental matters for which proxies are available, the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its upstream and downstream value chain, especially from SMEs, for example, when calculating the undertaking's GHG Scope 3 emissions.'

Answer

For scope 3 emissions, the undertaking cannot choose to omit the data if no suitable emission factors are available.

However, ESRS 1 paragraphs 69 and 71 state that the undertaking may be allowed to use sector averages or proxies to estimate value chain information. This also applies to biogenic emissions

in scope 3. Conversely, a statement of omission can be used to report biogenic emissions in scope 2 if this data is unavailable.

Therefore, if deemed material information, preparers are required to estimate the Scope 3 biogenic emissions using sector averages and other proxies. However, it is likely that in many cases, biogenic Scope 3 emissions may be deemed non-material information as per paragraph 31 of ESRS 1.

[NOTE: The secretariat considers it is relevant to cover such case, as it is likely that all value-chains will have some biogenic scope 3 emissions, however, it is unlikely that these will be material information for a large majority of companies. To our knowledge, Scope 3 biogenic emissions is a considerably under-reported category at the moment]. Conversely, a statement of omission can be used to report biogenic emissions in scope 2 if this data is unavailable.

ID 893– Conversion factor fossil fuels

Category

Environment

Question asked

Which indicators are to be used to convert fossil fuels to kWh (gasoline, diesel, natural gas)?

ESRS reference

ESRS E1 paragraph AR 32

Key terms

Conversion factors, fossil fuels

Background

The submitter also asked about the ‘conversion of air conditioning refrigerants to kWh.’ As there is no need to convert air conditioning refrigerants into energy units, this question is not addressed.

ESRS E1 paragraph AR 32 states: ‘When preparing the information on energy consumption required under paragraph 35, the undertaking shall: ...

- (c) ensure all quantitative energy-related information is reported in either Mega-Watthours (MWh) in Lower Heating Value or net calorific value. If raw data of energy related information is only available in energy units other than MWh (such as Giga Joules (GJ) or British Thermal Units (BTU)), in volume units (such as cubic feet or gallons) or in mass units (such as kilograms or pounds), they shall be converted to MWh using suitable conversion factors (see for [example Annex II of the Fifth Assessment IPCC report](#)). Conversion factors for fuels shall be made transparent and applied in a consistent manner;’.

Answer

Conversion factors for the energy content of fuels (so-called heating or calorific values) need to be used when preparing information on energy consumption. Heating values can be direct or indirect data, originate from multiple sources, and be expressed in different ways (e.g., energy per weight or energy per volume).

Direct data on heating values will result from the analysis of the heat content of fuels used and from which a conversion factor is derived. This is typically done by very large energy consumers (and emitters) who need to know well the fuels they use, for example, power production from fossil fuels.

Indirect data on heating values can comprise, for example, data from fuel suppliers, national statistics data or engineering/technical factors representing usually accepted average figures for each fuel type, often reported as ranges (e.g. biodiesel 39–41 MJ/kg).

Common sources of indirect data for heating values are:

- (a) [2006 IPCC Guidelines for National Greenhouse Gas Inventories](#) (Table 1.2, page 1.18), also used as a reference for [Annex VI of the EU ETS Monitoring and reporting regulation](#);
- (b) The UN Energy Statistics Yearbook, which provides statistical series of Heating values for different fuels and countries (see the [supplement to the 2021 Energy Statistics Database](#));
- (c) [GHG national inventories reports \(NIR\)](#) submitted to the UNFCCC; and
- (d) Publications from energy statistics by the national statistics or energy authorities.
- (e) It is important to note that calorific value changes across jurisdictions.

Governance

ID 800 Corruption and Bribery

Category

Governance

Question asked

Does an undertaking need to disclose the total number of incidents of corruption, and the total number of incidents of bribery? Or is there some additional data needed around "nature" of each of those types?

ESRS Reference

ESRS G1-4 paragraphs 24 and 25

Key terms

Corruption/bribery

Background

ESRS G1 paragraph 24 states: 'The undertaking shall disclose:

- (a) the number of convictions and the amount of fines for violation of anti-corruption and anti- bribery laws; and
- (b) any actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery.'

ESRS G1 paragraph 25 states the following: 'The undertaking may disclose: (a) the total number and nature of confirmed incidents of corruption or bribery; ...'

Answer

There is no requirement to distinguish between convictions or fines for corruption and those for bribery in paragraph 24 of ESRS G1. Additional information about the nature of the conviction or fine is voluntary.

Log of explanations

'Confirmed incidents of corruption/bribery' is the subject of voluntary disclosures per paragraph 25 of ESRS G1 which requires disclosure of the nature. There is no concept of 'incidents of corruption or bribery' in ESRS.