

The background of the page is a complex abstract design. It features large, overlapping geometric shapes in shades of green and blue. A light blue line graph with several data points is visible in the upper right quadrant. In the lower left, there are several thin, parallel lines that curve and then point towards the right. The overall aesthetic is modern and professional.

Platform Response to the Call for feedback on draft ESRS delegated act

7 July 2023

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EU Platform on Sustainable Finance

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The considerations below are compiled under the aegis of the Platform on Sustainable Finance and cannot be construed as official guidance by the European Supervisory Authorities (ESAs). As a result, the views and recommendations do not purport to represent or anticipate any future official guidance and views issued by the ESAs which may differ from the contents of this report.

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Introduction

The EU Platform on Sustainable Finance welcomes the opportunity to provide input on the draft Commission's Delegated Act on the European Sustainability Reporting Standards (ESRS). These standards are vital for ensuring consistent, comparable, and reliable sustainability-related information in line with the objectives of the European Green Deal, the EU Biodiversity Strategy for 2030 and the EU Climate Law. They are of crucial importance in addressing data gaps across the EU sustainable finance framework.

The Platform's response is based on five key principles:

- Precautionary principle – disclosure requirements should neither overestimate positive, nor underestimate negative information (“if in doubt, err on the side of the environment”). This principle is considered overarching to protect environmental integrity.
- Relevance – indicators ought to be meaningful and methodologies accurate.
- Consistency of ESRS indicators with wider sustainable finance framework (especially the EU taxonomy).
- Proportionality of the requirements - the reporting burden ought to be evenly distributed among the different players taking into consideration their different capabilities and responsibilities.
- Applicability – linked to international standards where feasible and taking consideration of implementation hurdles.

The Platform's response is limited to the key areas of its mandate: the interaction of the ESRS with the EU Taxonomy and the consistency with the other policies in the EU sustainable finance framework.

Platform's approach and key recommendations

The Corporate Sustainability Reporting Directive (CSRD)¹ is framed by the double-materiality perspective inherited from its predecessor the Non-Financial Reporting Directive (NFRD)². It is a unique and distinctive building block of the Directive. Recital (29) of the CSRD elaborates on the double-materiality perspective (impact materiality and financial materiality) and emphasises that ‘undertakings should consider each materiality perspective in its own right and should disclose information that is material from both perspectives as well as information that is material from only one perspective.’

The Platform believes that climate change is of utmost importance for all entities that fall under the scope of the Directive. Even when it might not be material from a financial perspective, all economic actors ought to reach net zero emissions. All entities can play a role in achieving net zero even if they

¹ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting, OJ L 322, 16.12.2022, pp. 15–80.

² Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, OJ L 330, 15.11.2014, pp. 1–9.

are acting as catalysers by ensuring their facilities are net zero, their sourcing policies minimise emissions and their operations are conducted in the most carbon efficient way, in line with the recently published Commission Recommendation on facilitating finance for the transition to a sustainable economy³.

The Platform also believes that biodiversity impacts and transition plans should be mandatory to disclose if impacts are deemed material for the economic activities conducted by the entity.

The Platform underlines the need to ensure that financial market participants (FMPs) and financial institutions (FIs) have access to all relevant information required for their own reporting.

While there is full consensus in the Platform on the relevance of the ESRS E1 and climate standards, biodiversity impacts and transition plans and on the need to provide FMPs and FIs with the necessary information in order for them to fulfil their fiduciary and regulatory duties; there is a slight divergence on how it should materialise.

The vast majority of the Platform is of the view that the ESRS E1 and climate standards and the information required for regulatory purposes by FMPs and FIs are material for all entities and should not be subject to a materiality assessment. For those companies that conduct economic activities with little impact (ie. Those that conduct low environmental impact activities as per the Taxonomy language), reporting should be adjusted in the level of detail demanded within the standards e.g. transition plans.

There is, however, a minority view that believes in a different approach that ensures a cohesive reporting infrastructure while respecting the principle of materiality. They are of the opinion that if the assessment of the mandatory indicators under Sustainable Finance Disclosure Regulation Regulatory Technical Standards (SFDR RTS)⁴, Taxonomy Regulation⁵, the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) Pillar 3 review, and the Benchmark Regulation (BMR)⁶ which financial institutions are required to report lead to the conclusion that specific information from corporates is strictly needed, those limited indicators should be introduced in the ESRS 2 General disclosures in a simplified reporting table for non-material information. The format of the disclosure should not require any further contextual information and should not trigger any other reporting requirements in the standards.

Irrespective of whether the majority of the Platform's request of eliminating the materiality assessment requirement for the indicators above mentioned is retained, the Platform in its entirety

³ https://ec.europa.eu/finance/docs/law/230613-transition-finance-recommendation_en.pdf

⁴ Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports, C/2022/1931, OJ L 196, 25.7.2022, pp. 1–72.

⁵ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198, 22.6.2020, pp. 13–43.

⁶ Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014, OJ L 171, 29.6.2016, pp. 1–65.

calls for detailed guidance on how companies should conduct the materiality assessment for all standards subject to it.

The Commission should provide clear and comprehensive guidance on how companies ought to conduct their materiality assessment, and where applicable, require an explanation of why a sustainability topic (e.g. biodiversity) was not considered material. Rigorous and thorough materiality assessments will be key to ensuring that essential sustainability information is not omitted. The materiality assessment being a process-based procedure risks lacking the clarity and precision needed. This could affect the comparability of reporting and force assurance providers to exercise significant judgment, leading to diversity in practice and increased expectation gaps for users of the sustainability reports. Guidance should therefore include a detailed step-by-step methodology on how to perform the materiality assessment, how to report on the value chain (including on scope 3), and how to deal with estimates and with forward-looking information.

The Platform believes the Taxonomy as a science-based tool can play a key role in defining the impact and materiality of the different economic activities in sustainability (inside-out perspective). The Platform recommends clarifying the interdependence between the EU Taxonomy-eligibility of an undertaking's activities and the materiality assessment process for these activities' substantial contribution and do not significant harm (DNSH) objectives under the ESRS, which would in addition ensure coherence between the two standards. The Platform commits to drafting some clear recommendations on the potential role of the EU Taxonomy in materiality assessments.

The table below summarizes the key recommendations that the Platform is making the European Commission in relation to the ESRS. All recommendations (including the more detailed and technical ones displayed in the annexes) should be considered valuable in the effectiveness and application of the ESRS and the wider Sustainable Finance Regulatory package.

Category 1 recommendations refer to those that can be immediately integrated in the ESRS Delegated Acts. Category 2 responds to those that require further work or changes in other regulations as well, e.g. link to the guidelines on materiality assessment.

	Description	Category
1	<p>*Under the double materiality concept, the Platform considers that climate change is material (inside-out perspective) for all entities given that the imperative to reach net zero emissions means that all economic activities and actors ought to reach net zero and contribute even if indirectly.</p> <p>The reporting on ESRS E1 and climate standards should be excluded from the materiality assessment.</p> <p>Companies for whom climate change is not material from a single materiality perspective (outside-in perspective) should be allowed to provide simplified transition plans.</p>	1
2	<p>The Platform believes that biodiversity impacts and transition plans should be mandatory to disclose if impacts are deemed material for the economic activities conducted by the entity (inside-out perspective).</p>	1

3	<p>The Platform believes that not all ESRS should be treated equally. Some ESRS are only material for companies conducting certain economic activities, hence there is a need to formally acknowledge their sectoral nature⁷ in the definitions or in the materiality assessment; as well as in the definition of those same indicators in the respective regulations when requested to FMPs as principle adverse impact (PAI) or BMR indicators or to credit institutions as ITS. Equally, and to ensure proportionality, the ESRS could foresee the reporting of a "qualified zero" or an estimate in cases where a company does not conduct certain activities for which a certain metric is of (sufficient) relevance (including a Not Applicable when relating to Y/N answers or similar e.g. companies without a policy to address deforestation or policies to address deforestation).</p>	2
4	<p>*The Platform recommends the European Commission ensure that the other indicators relevant to financial market participants, credit institutions and insurance companies sustainability reporting regulations (particularly the SFDR's mandatory PAI indicators and CRR/CDR Pillar 3 ESG risk ITS indicators) are disclosed fully by in-scope companies without them being bound to a prior materiality assessment.</p>	1
5	<p>The Platform makes concrete recommendations to the European Commission for improving the consistency of reporting under the EU Taxonomy within the ESRS. It will be particularly important to better integrate Taxonomy-related reporting (Taxonomy-aligned revenues, Capex, and Capex investment plans) into the ESRS climate transition plan disclosures standard (E1-1) in line with the Commission Recommendation on facilitating finance for the transition to a sustainable economy.</p>	1
6	<p>The Platform suggest a series of technical changes aimed at improving the conceptual consistency of the ESRS with the EU Taxonomy's underlying environmental indicators.</p> <p>The Platform equally recalls the technical recommendations it has made to the EC and ESAs to strengthen the methods to calculate the PAI indicators. These should be reflected in the ESRS that replicate the PAI indicators.</p>	2
7	<p>For all disclosures that are subject to materiality assessment, the Commission should provide clear and comprehensive guidance on how it should be conducted, and require an explanation of why an entire sustainability topic (e.g. biodiversity) was not considered material. Guidance should include a detailed step-by-step methodology on how to perform the materiality assessment, how to report on the value chain (including on scope 3), and how to deal with estimates and forward-looking information.</p>	1

⁷ By "sectoral nature", the Platform refers to a sustainability factor (e.g. hazardous waste or emissions of ozone-depleting substances) that is not material (from an inside-out perspective) to all economic activities, even if the indicator is part of the sector-agnostic standards and valid for several sectors; as opposed to the upcoming sector-specific standards to be developed by EFRAG that will be tailored for each sector.

8	The Platform recommends clarifying the interdependence between the EU Taxonomy-eligibility of an undertaking’s activities and the materiality assessment process for these activities’ substantial contribution and DNSH objectives under the ESRS. This will improve coherence between the two standards.	2
9	The Platform suggests aligning the definition of “financial materiality” within the ESRS with the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISBB) by eliminating the reference to wider stakeholders as the latter could be already covered by the “impact materiality” provision of the ESRS “double materiality” perspective. This deletion will enhance interoperability between ISSB and ESRS and facilitate the implementation of the ESRS while avoiding confusion.	1

Please note that while there is full consensus in the Platform on the relevance of the ESRS E1 and climate standards, biodiversity impacts and transition plans and on the need to provide FMPs and FIs with the necessary information as described above, there is a slight divergence in how this should be achieved. There is a minority view that differs from the approach taken on recommendations 1 and 3. All the recommendations throughout the report that fall directly under recommendation 1 and/or 3 and might be in opposition to their approach to the principle of materiality are marked with an *.

Detailed recommendations

1. Consistency with the EU Taxonomy

Conceptual consistency and complementarity between the ESRS standards and the EU Taxonomy will be key to ensuring the effectiveness of environmental reporting in the EU. While the entity-level ESRS indicators provide an overview of a company's plans to ensure that its strategy and business model are compatible with the transition to a sustainable economy, the EU Taxonomy acts as a zoom-in – allowing investors and other stakeholders to identify the proportion of that company's turnover and spending that are making (or plan to make) a substantial contribution to an environmental objective. While the ESRS reflect the overall direction of travel of the company and performance (top-down approach), the EU Taxonomy provides details on the impact and trajectory of its activities, often at asset-level (bottom-up approach).

The Platform has made detailed and targeted recommendations for improving consistency regarding both reporting rules under the Taxonomy Disclosures Delegated Act (see annex 1 of this report, points 1.1-1.21, pages 14-23) and conceptual consistency with the underlying environmental indicators under the Taxonomy Climate and Environmental Delegated Acts (see annex 1 points 1.22-1.35, pages 23-28).

Transition planning

The Commission should allow for better integration of taxonomy-related reporting (taxonomy-aligned revenues, Opex, Capex, and Capex plans) into the ESRS climate transition plan disclosures standard (E1-1). This would be consistent with the Commission's recent communication on transition finance, which encourages the use of the EU Taxonomy (and specifically activity-level Capex plans⁸) as part of the undertaking's overall transition plan.

The Platform highlights below some proposed changes to ensure meaningful inclusion of the taxonomy KPIs as part of a company-level transition plan:

- The disclosure requirement 16.c of the ESRS E1-1 (on investments and funding supporting the transition plan), combined with the disclosure of taxonomy-aligned Capex spending, will be key to help FMPs, credit institutions and other stakeholders assess how the undertaking's investments/spending aligns with its transition plan and targets (respectful of commercially sensitive information). 16.c is central to the success of transition finance and complementary to 16.e in this regard. In its current form the indicator is not sufficiently granular to enable credit institutions and FMPs to make informed transition finance decisions, and the link to financial reporting to companies is unclear. The Platform recommends the financial information related to actions to be disclosed by economic activity (NACE 4 digit level) in a proportionate manner where possible (e.g. for companies that conduct few activities), associated with clear financial indicators (see Application Requirement 23). In addition, the Platform calls on the Commission to issue clear guidelines with accounting templates to

⁸ Para 21 of [Commission recommendation on facilitating finance for the transition to a sustainable economy \(2023\)](#), page 5. "Investments to reach Taxonomy alignment in 5 (exceptionally 10) years are recognised as capital expenditure that is fully aligned with the Taxonomy if it is accompanied by a capital expenditure plan, which is a type of activity-level transition plan".

support companies' disclosure of a Climate Transition Financing Plan, as well as guidance for auditors to evaluate forward looking statements.

- Paragraph 16.c. refers explicitly to disclosure requirement E1-3 (climate mitigation actions and resources allocated to the implementation of the plan). Disclosures of key actions planned to achieve the targets set in the transition plan should be accompanied by key resources deployed for the action(s) planned. This can include the Taxonomy-aligned Capex KPI for actions taken (current) and Taxonomy-aligned Capex investment targets and/or plans for actions planned (future). This is consistent with the Commission's Recommendation on transition finance⁹.
- Paragraph 16.e. of the ESRS E1-1 will enable undertakings to emphasise plans to increase taxonomy-alignment which can be achieved through i) expansion (i.e. acquisitions, growth), or ii) turning an eligible activity into an aligned activity (e.g. investments to reduce lifecycle emissions of product, addressing DNSH). In both cases, it is not entirely clear how this would fit with the overall absolute GHG emission reduction plan and targets¹⁰. Therefore, the Platform recommends including explicit reference to the identification of aspects of the overall transition plan that are specifically attributable to the activity-level taxonomy Capex plan as per the Disclosures Delegated Act¹¹.

Climate transition plan disclosures should include undertakings' efforts to promote a just transition for workers and communities (in line with the recently updated OECD Guidelines for Multinational Enterprises) and efforts to assess and mitigate physical climate risks and impacts (climate adaptation).

The Platform recommends that the disclosure of biodiversity transition plans should be maintained as mandatory to disclose if impacts are deemed material for the economic activities conducted by the entity (inside-out perspective). Biodiversity plans are a critical input into forward-looking scenarios and modelisation of net zero trajectories and are crucial to the identification and mitigation of adverse impacts on ecosystems and biodiversity¹². This would also be consistent with Target 15 of the Global Biodiversity Framework agreed upon at COP 15 (requiring large companies and financial institutions to disclose risks, dependencies, and impacts on biodiversity along their operations, supply and value

⁹ Paragraph 20: "undertakings can also use sustainable finance tools of the Union, such as the Taxonomy, not only to disclose Taxonomy-aligned activities and capital expenditures, but also as a forward-looking tool for their transition process, using the criteria of the Taxonomy as reference points for setting targets. The Taxonomy is increasingly being used for transition finance purposes, with many undertakings reporting Taxonomy aligned capital expenditure that is materially higher than aligned revenue, especially in high-impact sectors." Available at: https://ec.europa.eu/finance/docs/law/230613-transition-finance-recommendation_en.pdf

¹⁰ % revenue taxonomy aligned can increase together with total GHG emissions if overall production increases – or increase in revenue-alignment comes from DNSH which doesn't necessarily relate to GHG emissions.

¹¹ Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation, C/2021/4987, OJ L 443, 10.12.2021, pp. 9–67.

¹² Though there are clear links and interdependencies between climate and biodiversity-related issues, disclosure of a climate mitigation transition plan should not automatically trigger a requirement to report on biodiversity transition plans.

chains and portfolios) and investor reporting requirements in some EU member states (such as Article 29 of the *Loi Énergie Climat*).

Wider consistency with the EU Taxonomy

References to taxonomy reporting and KPIs only appear in the ESRS 1, ESRS 2 (general disclosure), ESRS E-1 (climate) and ESRS E-2 (pollution). Given the recent adoption of the Taxonomy Environmental Delegated Act covering environmental objectives, the Platform recommends ensuring consistency throughout the environmental standards. The equivalent of disclosure requirement 16.e. of the ESRS E1-1 (plans/targets for future taxonomy alignment) could be added to the other environmental standards (E2-E5) to address this. A wider assessment of the EU Taxonomy substantial contribution and DNSH criteria across other ESRS environmental subject matters would be needed to improve consistency in a future review of the standards.

The Platform remains available to support the European Commission in developing further guidance and examples of how to effectively integrate reporting under the EU Taxonomy into ESRS sustainability reports.

2. Consistency with wider EU sustainable finance framework

Consistency of the standards with other policies in the EU sustainable finance framework is of critical importance to ensure the effectiveness of the wider system.

The requirement introduced to apply a materiality assessment to be conducted by the preparer to all standards except for general disclosures (ESRS 2) will have a significant impact on the quality and availability of data for disclosures required under the SFDR, BMR, and CRR/CDR Pillar 3 ESG risk disclosure requirements. The CSRD sets out explicit provisions for the ESRS to capture this information, as showcased in recitals (41) and (54) as well as Article 29b (5). In line with the principle of proportionality and applicability, FMPs and credit institutions should be able to rely on the disclosure of those data points by companies under ESRS.

If companies do not disclose information on certain indicators since they conclude that the impact is not material, Art. 7 (2) SFDR Delegated Regulation currently stipulates that FMPs should disclose details of the best efforts used to obtain the information either directly from investee companies, or by carrying out additional research, cooperating with third party data providers or external experts, or making reasonable assumptions. This is applicable to all FMPs that employ on average more than 500 employees or that decide to comply with the disclosures voluntarily. FMPs are therefore likely to put pressure on companies to obtain this information where it is not publicly reported, even if it has been declared as non-material by the company.

Similarly, credit institutions disclosing under CRR/CRD Pillar 3 ITS require granular information for their disclosure from all companies and sectors, to compare the information on risks and assess the impact of climate change on their financial activities. Credit institutions must disclose how they are mitigating the identified risks and supporting their counterparties in their adaptation and transition efforts. CRR/CRD Pillar 3 ITS disclosure requirements are already into force (as of 2023) and credit institutions have already started to disclose accordingly. However, given the lack of direct information from their counterparties, the data collection process presents challenges.

Benchmark administrators also need access to key climate-related and DNSH-related data to assess companies' eligibility for the Paris Aligned Benchmark (PAB) and Climate Transition Benchmark (CTB) criteria under BMR. These range from exposure to transition related risks, GHG emissions and intensities to compliance with human rights standards and exposure to tobacco production and cultivation.

The Platform believes that not all environmental indicators should be treated equally with the exception of climate-related data. Some indicators related to some sustainability aspects are only material for companies conducting certain economic activities, hence there is a need to formally acknowledge their sectoral nature in the respective regulations. This should be specified in the definition of those same indicators requested to FMPs as PAI indicators. For example, this would apply to PAI 9 (hazardous and radioactive waste ratio); PAI 5 (non-renewable energy consumption and production – while energy consumption should apply across the board, it is not the case for energy production); PAI 8 (emissions to water) or PAI 11 (investments in companies without sustainable land/agriculture practices or policies). The EC and ESAs could reflect such materiality as in PAI 6 (energy consumption intensity per high impact climate sector) by identifying the relevant sectors with the NACE code.¹³

To ensure proportionality, the ESRS could foresee the reporting of a "qualified zero" or an estimate in cases where a company does not operate in a sector for which a certain metric is of (sufficient) relevance (including a Not Applicable when relating to Y/N answers or similar questions e.g. companies without a policy to address deforestation or policies addressing deforestation). In the case of indicators for which companies should be allowed to report a "qualified zero", FMPs should be allowed to exclude such companies from the numerator of the respective PAI indicator.

Whilst CRR/CRD Pillar 3 indicators ITS are currently focused on climate physical and transition risks, a review is planned for 2024 to foresee the extension of prudential disclosure to environmental risks. As a result, the Platform recommends a similar approach to considering environmental indicators that will be relevant for credit institutions' disclosures under their prudential obligations.

The other mandatory PAI and ITS indicators should be material by definition, given the importance that company performance on each one of these data points could have for their shareholders, creditors and potential investors. There are indicators for which an estimation on a best effort basis is preferable to a default zero, e.g. scope 1, 2, 3 emissions.

The Platform notes that many credit institutions and some FMPs are subject to CSRD disclosures as corporates, in addition to their own reporting obligations as credit institutions and FMPs. To rely on bilateral engagement and estimates to collect this information would be burdensome for both financial institutions and non-financial undertakings. Reporting burden should be shared between corporates and financial institutions in a proportionate manner and a level playing field between corporates and the financial sector ensured.

¹³ The Platform understands that by "material only to some economic activities", it is meant that the sustainability factor is only material from an inside-out perspective for those companies involved in certain economic activities e.g. hazardous waste, for example, for sectors such as manufacturing; waste collection, treatment and disposal activities, and materials recovery, including hazardous waste from both wastewater treatment and solid waste incineration; and construction. The information and the indicators are non-sectoral as they require exactly the same information e.g. the total amount of hazardous waste, for other sustainability issues the indicator might be the policy implemented to address the issue. By sectoral indicators, the Platform understands that the indicators or the information demanded is tailored to that sector e.g., Liquid wastes and sludges from metal treatment and coating of metals.

For these reasons, the Platform recommends:

- The Commission exclude the ESRS E1 and climate standards and key data points for FMPs and FIs from the materiality assessment.*
- The Commission render disclosures of biodiversity impacts and transition plans mandatory if impacts are deemed material for the economic activities conducted by the entity (inside-out perspective).
- Ensuring that non-sectoral¹⁴ environmental and social indicators relevant to SFDR, EU Climate Benchmark Regulation and Climate Benchmarks Delegated Acts, CRR/CRD Pillar 3 ITS disclosures, and other financial institutions reporting regulations are disclosed fully by in-scope companies on a mandatory basis, without them being bound by a prior materiality assessment.*
- Including in the definition of ESRS (or in the materiality assessment guidance) the economic activities for which they are relevant or material when that is the case (as well as in the definition of the PAIs, ITS and BM indicators). The EU Taxonomy could be useful when making the materiality assessment. Such guidance in the definition will also be useful for FMPs and credit institutions when estimating performance for non-EU companies.
- Allowing companies to report a “qualified zero” (or Not Applicable as appropriate) if they do not operate in these sectors or do not conduct the identified economic activities.

In any case, if FMPs or credit institutions have an indication that companies should have assessed the materiality differently, they should engage with such companies to clarify the materiality assessment.

Beyond the issues related to materiality and data availability highlighted above, consistency of the underlying indicators and data points is of critical importance to the coherence and effectiveness of the wider framework. The Platform has included a mapping of the different data points according to the different policies (see annex 2) and has made detailed and targeted recommendations for improving the consistency of the different indicators (see points 2.1-2.8 of annex 1, page 28-31).

3. Materiality assessment and assurance

The Commission’s current proposal risks adding significant pressure on assurance providers to be gatekeepers of what can and cannot be accepted as non-material.

For those disclosures that are subject to a materiality assessment, the Commission should provide clear and comprehensive guidance on how companies will do their materiality assessment, and require an explanation of why an entire sustainability topic (e.g. biodiversity) was not considered material. Detailed and thorough materiality assessments will be key to ensuring that essential sustainability information is not omitted. The materiality assessment being a process-based procedure, there is a risk that the lack of clarity will affect the comparability of reporting and force assurance providers to exercise significant judgment, leading to diversity in practice and increased expectation gaps for users of the sustainability reports. Guidance should therefore include a detailed step-by-step methodology

¹⁴ By “sectoral nature”, the Platform refers to a sustainability factor (e.g. hazardous waste or Emissions of ozone-depleting substances) that is not material (from an inside-out perspective) to all economic activities, even if the indicator is the same and that is why is part of the sector-agnostic standards and not the sector specific (ie. in opposition to sector-tailored indicators).

on how to perform the materiality assessment, how to report on the value chain (including on scope 3) and how to deal with estimates and with forward-looking information. This guidance will be critical for assurance providers when conducting their verification duties.

The Platform believes the Taxonomy as a science-based tool can play a key role in defining the impact and materiality of the different economic activities in sustainability (inside-out perspective). The Platform recommends clarifying the interdependence between EU Taxonomy eligibility of an undertaking's activities and the materiality assessment process for these activities' substantial contribution and DNSH objectives under the ESRS. This is necessary to ensure coherence and compatibility between the two standards.

- On the one hand, according to the Taxonomy Regulation, all eligible activities can “contribute [...] substantially” to the environmental objective that their substantial contribution criteria refer to, while “significant harm” from the activity is prevented for the objectives covered by its DNSH criteria. On the other hand, according to ESRS 1, point 3.4, a sustainability matter “is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long-term” including its full upstream and downstream value chain.
- Under the assumption that both “substantial contribution” and “significant harm” refer to material impacts, it follows that for undertakings conducting Taxonomy-eligible activities – both own-performance and enabling – the ESRS topical standards would be material. Materiality may be limited to the Taxonomy eligible activities, which could be reflected in the ESRS reporting.

The Platform commits to draft some clear recommendations on the potential role of the EU Taxonomy in materiality assessments.

Lastly, the Platform would like to highlight concerns about the definition of ‘financial materiality’, which diverges from the definition in the ISSB standards. The concern relates to paragraph 48 of the ESRS 1, which sets out the scope and audience of financial materiality as per the double materiality approach in the standard. The second part of paragraph 48 aligns with the IASB/ISSB definition of financial materiality, which considers the information needs of investors (primary users of general-purpose financial reports). However, the first part expands the scope and audience to other stakeholders by adding “is not limited to”. While the Platform agrees and commends the intention, it believes that the wider stakeholders could be covered by the ‘impact materiality’ provision of the ESRS ‘double materiality’ perspective.

Effectively, this wording declares ‘all stakeholders’ as the potential audience of the information disclosed, and while supporting the intent, there is a concern that this may lead to a ‘triple materiality’ approach:

- investor focused materiality
- wider stakeholder focused financial materiality
- impact materiality

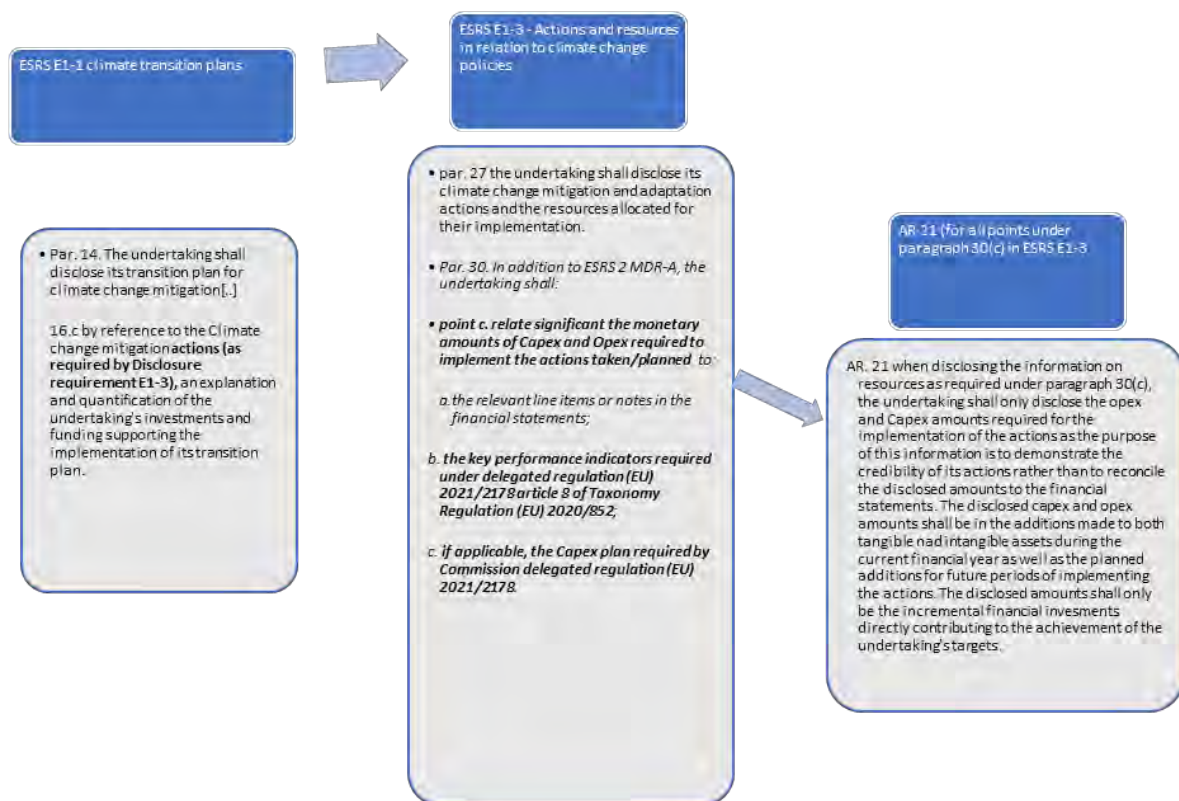
The Platform notes that this could be confusing and challenging for undertakings to apply. This could also act as a barrier to achieving interoperability between the ISSB and ESRS. The Platform therefore supports ESMA's advice to delete the reference to wider stakeholders in its [opinion published in January](#).

The requirements for large public interest entities (PIEs) with securities admitted to trading on the EU regulated markets, to always prepare a separate sustainability report and not be able to make use of the group exemption, might have undesired effects on EU capital markets. This as a bond issuance becomes significantly more expensive than other forms of financing. The Platform recommends that the Commission amends, if possible, the required disclosure requirements for companies that are fully covered in a consolidated report of a parent but who cannot make use of the group exemption.

Annex I – Proposed changes to ESRS

Consistency with EU Taxonomy

ESRS E1 Climate



Below: Example of interactions between disclosure requirements and application requirements related to actions and resources for climate transitions plans (the example includes the text changes as proposed by the Platform)

#	ESRS European Commission proposal	Proposed change	Rationale
1.1	<p>Disclosure requirements E1-1 – Transition plan for climate change mitigation (page 72)</p> <p><i>par. 16 (e.) for undertakings with economic activities that are covered by delegated regulations on climate adaptation or mitigation under the Taxonomy Regulation, an explanation of any objective or plans (Capex, Capex plans) that the undertaking has for aligning its economic activities (revenues, Capex) with the criteria established in those delegated regulations;</i></p>	<p>Change text to:</p> <p><i>par. 16 (e.) for undertakings with economic activities that are covered by the delegated regulations on climate adaptation or mitigation under the Taxonomy Regulation 2020/852 an explanation identification of any objective or plans (Capex, Capex plans, Opex) [add footnote] that the undertaking has for aligning its economic activities (revenues, Capex , Opex)-with the criteria established in those the Climate delegated regulations 2021/2139;</i></p> <p><i>add footnote: Capex plans are defined in the delegated regulation 2021/2178 Annex I 1.1.2.2. The entity shall identify, which aspects of the overall transition plan are specifically attributable to the Capex plan as per Regulation (EU) 2021/2178.</i></p>	<p>The proposed changes have the objective of clarifying the legal references to the Taxonomy framework.</p> <p>The Platform suggests changing the word “explanation” (of Capex plans) to “identification” in order to avoid duplication of disclosures under Article 8 of the Taxonomy Regulation and identify aspects of the entity’s overall transition plan pertinent to Taxonomy Capex plans.</p>
1.2	<p>Disclosure requirements E1-1 – Transition plan for climate change mitigation (page 72)</p> <p><i>16.(f). if applicable, a disclosure of significant Capex amounts invested during the reporting period related to coal, oil and gas-related economic activities;</i></p>	<p><u>Change text to:</u></p> <p><i>16(f). if applicable, a disclosure of significant Capex amounts invested during the reporting period related to coal, oil and gas-related economic activities;</i></p>	<p>Remove ‘significant’ as it is unclear and does not define a specific threshold.</p>
1.3	<p>Disclosure requirements E1-1 Transition plan for climate change mitigation (page 82)</p>	<p>Change text to:</p> <p><i>AR. 4 When disclosing the information required under</i></p>	<p>The ESRS disclosure requirements reference the activities included in the Climate Delegated Act and the use of specific Taxonomy KPIs to</p>

	<p>AR. 4 When disclosing the information required under paragraph 16 (e), the undertaking shall explain how the alignment of its economic activities with the provisions of the Delegated Act (EU) 2021/2139 (evolution of green revenue) supports its transition to a sustainable economy. In doing so, the undertaking shall take account of the information required to be disclosed under Article. 8 of the Taxonomy Regulation (in particular, the green revenue, and Capex and, if applicable, Capex plans).</p>	<p>paragraph 16 (e), the undertaking shall explain how the alignment of its economic activities with the provisions of the <i>Climate Delegated Act (EU) 2021/2139 (evolution of green revenue) is expected to evolve over time, to support its transition to a sustainable economy. In doing so, the undertaking shall take account of the information key performance indicators required to be disclosed under Article. 8 of the Taxonomy Regulation 2020/852 (in particular, the evolution of green revenue taxonomy-aligned revenue, and Capex and, if applicable, Capex plans).</i></p>	<p>identify the transition effort of an undertaking disclosing with a broader set of activities, including those that may not be included in the Taxonomy framework.</p> <p>Eligibility to the Taxonomy Regulation is not dependent on revenue generation and the parenthesis is confusing. We are instead proposing to maintain the concept of ‘evolution’ – while referencing Taxonomy-aligned revenue at the end.</p>
1.4	<p>Disclosure requirements E1-1 –Transition plan for climate change mitigation (page 72)</p> <p>16 (b). by reference to GHG emission reduction targets (as required by Disclosure Requirement E1-4) and the climate change mitigation actions (as required by Disclosure Requirement E1-3), an explanation of the decarbonisation levers identified, and key actions planned, including changes in the undertaking’s product and service portfolio and its adoption of new technologies;</p>	<p>16 (b). by reference to GHG emission reduction targets (as required by Disclosure Requirement E1-4) and the climate change mitigation actions (as required by Disclosure Requirement E1-3), a list and explanation of applicable decarbonisation levers identified and the relative contribution (in %) to the GHG emission reduction (abatement curve as per E1-4 AR 32). key actions planned, including changes in the undertaking’s product and service portfolio and its adoption of new technologies;</p>	<p>In order to make the information comparable and machine readable, the list of decarbonisation levers must be standardised.</p> <p>The levers are: Mitigation (levers as per E1-4 35f)</p> <ul style="list-style-type: none"> - Energy or material efficiency and consumption reduction - Fuel switching - Electrification (separate from fuel switch) - Use of renewable energy - Phase out or substitution of products and process - CCU(S) - Supply-chain decarbonisation - GHG removals in its own operations or in value chain (57a) - GHG removals through any purchase of carbon credits (57b) - Other
1.5	<p>E1-1 Transition plan for climate change mitigation.</p> <p>16.c - <i>by reference to the climate change mitigation actions (as required by Disclosure Requirement E1-3), an explanation of the undertaking’s investments and funding supporting the</i></p>	<p>16.c - by reference to the climate change mitigation actions (as required by Disclosure Requirement E1-3), an explanation of the undertaking’s investments and funding supporting the implementation of the transition plan. The undertaking may structure its</p>	<p>16.c is central to the success of transition finance and complementary to 16.e in this regard. As important as it is, the indicator is not sufficiently granular to enable banks and investors make informed transition finance decisions. In addition, the link to financial reporting to companies is unclear. We</p>

	<p>implementation of the transition plan;</p>	<p><i>actions by economic activity to accommodate its investments and funding, such as Capex and Opex.</i></p>	<p>recommend the financial information related to actions to be disclosed by economic activity, associated with clear financial indicators (see Application Requirement 23).</p> <p>In addition, the Platform calls on the Commission to issue clear guidelines with accounting templates to support companies' disclosure a Climate Transition Financing Plan, as well as guidance for auditors to evaluate forward looking statements.</p>
1.6	<p>Disclosure requirement ESRS E1-3 - Actions and resources in relation to climate change policies (page 74)</p> <p>Par. 30 In addition to ESRS 2 MDR-A, the undertaking shall:</p> <p><i>c. relate significant monetary amounts of Capex and Opex required to implement the actions to:</i></p> <ol style="list-style-type: none"> <i>a. the relevant line items or notes in the financial statements;</i> <i>b. the key performance indicators required under article 8 of Taxonomy Regulation (EU) 2020/852;</i> <i>c. if applicable, the Capex plan required by Commission delegated regulation (EU) 2021/2178.</i> 	<p>Change text to:</p> <p><i>Par. 30 In addition to ESRS 2 MDR-A, the undertaking shall:</i></p> <p><i>c. relate significant the monetary amounts of Capex and Opex required to implement the actions taken/planned to:</i></p> <ol style="list-style-type: none"> <i>a. the relevant line items or notes in the financial statements;</i> <i>b. the key performance indicators required under delegated regulation (EU) 2021/2178 article 8 of Taxonomy Regulation (EU) 2020/852;</i> <i>c. if applicable, the Capex plan required by Commission delegated regulation (EU) 2021/2178.</i> 	<p>The proposed changes have the objective of clarifying the legal references to the Taxonomy framework.</p> <p>Introducing the distinction between actions taken and actions planned for consistency across standards. This is also useful to differentiate Capex alignment KPI from Capex plans.</p> <p>In general, recommendation to avoid using word 'significant' or subjective language (see below).</p>
1.7	<p>Disclosure requirement ESRS E1-3 - Actions and resources in relation to climate change policies (page 74)</p> <p><i>AR 21. When disclosing the information on resources as</i></p>	<p>Change text to:</p> <p><i>AR 21. When disclosing the information on resources as required under paragraph 30(c), the undertaking shall only disclose the significant Opex and Capex amounts</i></p>	<p>The ESRS refer to 'significant' Opex and Capex, while the meaning of what can be considered as significant is not described in the ESRS.</p>

	<p>required under paragraph 30(c), the undertaking shall only disclose the significant Opex and Capex amounts required for the implementation of the actions as the purpose of this information is to demonstrate the credibility of its actions rather than to reconcile the disclosed amounts to the financial statements. The disclosed Capex and Opex amounts shall be the additions made to both tangible and intangible assets during the current financial year as well as the planned additions for future periods of implementing the actions. The disclosed amounts shall only be the incremental financial investments directly contributing to the achievement of the undertaking's targets.</p>	<p>required for the implementation of the actions as the purpose of this information is to demonstrate the credibility of its actions rather than to reconcile the disclosed amounts to the financial statements. The disclosed Capex and Opex amounts shall be the additions made to both tangible and intangible assets during the current financial year as well as the planned additions for future periods of implementing the actions. The disclosed amounts shall only be the incremental financial investments directly contributing to the achievement of the undertaking's targets.</p>	
1.8	<p>Disclosure requirement ESRS E1-3 - Actions and resources in relation to climate change policies (page 87)</p> <p>AR 23. The amounts of Opex and Capex required for the implementation of the actions disclosed under paragraph 30 b(c) shall be consistent with the key performance indicators (proportion of Capex and Opex) and, if applicable, the Capex plan mentioned by Commission delegated regulation (EU) 2021/2178. The undertaking shall explain any potential differences between the significant Opex and Capex amounts disclosed under this Standard and the amounts disclosed under the Taxonomy Regulation (EU) 2020/852 due to, for</p>	<p>Change text to:</p> <p>AR 23. The amounts of Opex and Capex required for the implementation of the actions disclosed under paragraph 30 (c) shall be consistent with the key performance indicators (proportion of Capex and Opex KPIs) and, if applicable, the Capex plan mentioned required by Commission delegated regulation (EU) 2021/2178. The undertaking shall explain any potential differences between the significant Opex and Capex amounts disclosed under this Standard and the amounts KPIs disclosed under the Taxonomy Regulation (EU) 2020/852 delegated regulation (EU) 2021/2178 due to, for instance, to the disclosure of non-eligible economic activities as defined in the delegated regulation (EU) 2021/2178. The undertaking may structure its</p>	<p>The ESRS disclosure requirements reference the use of specific Taxonomy KPIs to identify the actions and resources in relation to climate change policies of a specific undertaking, in comparison to the Opex and Capex the undertaking has identified for all its economic activities (including those that may not be included in the Taxonomy framework).</p> <p>The proposed changes are necessary to maintain the integrity of the Taxonomy framework, clarify the terminology used, and to ensure that the relevant KPIs can be referenced and used by an undertaking disclosing under the ESRS.</p> <p>The proposed changes have the objective of clarifying the legal references to the Taxonomy framework, and they ensure that the Taxonomy KPIs can serve as a</p>

	<i>instance, non-eligible economic activities. The undertaking may structure its actions by economic activity to accommodate its Opex and Capex plan aligned to the Taxonomy Regulation.</i>	<i>actions by economic activity, making use of NACE codes, to accommodate compare its Opex and Capex plan, and if applicable Opex and/or Capex plans, aligned to the Taxonomy Regulation to its taxonomy-aligned KPIs.</i>	term of comparison for the ESRS Capex, Opex and revenue disclosure.
1.9	<p>Disclosure requirements E1-9 (page 80)</p> <p><i>par. 66 The information required by paragraph 65 is in addition to the information on current financial effects required under ESRS 2 SBM-3 para 48 (d). The objective of this Disclosure Requirement related to:</i></p> <p><i>b. potential to pursue material climate-related opportunities is to enable an understanding of how the undertaking may financially benefit from material climate-related opportunities.</i></p>	<p>Change text to:</p> <p><i>par. 66 The information required by paragraph 65 is in addition to the information on current financial effects required under ESRS 2 SBM-3 para 48 (d). The objective of this Disclosure Requirement related to:</i></p> <p><i>b. potential to pursue material climate-related opportunities is to enable an understanding of how the undertaking may financially benefit from material climate mitigation and adaptation-related opportunities. This disclosure is complementary to disclosure obligations under the Commission delegated regulation (EU) 2021/2178.</i></p>	The proposed changes are to bring additional relevance and complementarity to Taxonomy disclosures.
1.10	<p>DR E1-6 Gross scope 1,2,3 and total GHG emissions.</p> <p>AR 40. When preparing the information for reporting GHG emissions as required by paragraph 45, the undertaking shall: (a) consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004)..</p>	<p>AR 40. When preparing the information for reporting GHG emissions as required by paragraph 45, the undertaking shall: (a) consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004 or <i>latest available consensus methods becoming available</i>)</p>	<p>More generally across the calculation guidance for GHG emissions the references to latest versions of the protocol have been removed. While there is a need to be cautious when referring external framework, it is important to build future proof regulation that accounts for evolving methodologies and increased knowledge in the area of GHG accounting (consensus and science based).</p> <p>Proposed wording is similar as the one used in AR 59 on GHG removals and storage.</p>

ESRS E2 – Environmental Standards

1.12*	Disclosure Requirement E2-3 – Targets related to pollution	<p>Change text to:</p> <p><i>AR 17. When providing contextual information on</i></p>	DNSH is a baseline for harm, it should not be an option to specify whether the targets may
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	<p>AR 17. When providing contextual information on targets, the undertaking may specify whether the target addresses shortcomings related to the Do No Significant Harm (DNSH) criteria for Pollution Prevention and Control while assessing the Substantial Contribution to one of the other environmental objectives of the Taxonomy Regulation (Regulation EU 2020/852).</p>	<p>targets, the undertaking may shall specify whether the target addresses shortcomings related to the Do No Significant Harm (DNSH) criteria for Pollution Prevention and Control while assessing the Substantial Contribution to one of the other environmental objectives of the Taxonomy Regulation (Regulation EU 2020/852).</p>	<p>harm other environmental objectives.</p>
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ESRS 1 and 2 – General Requirements and Disclosures

	ESRS (European Commission proposal)	Proposed change	Rationale
1.13	<p>ESRS 2 - Minimum Disclosure Requirement – Actions MDR-A – Actions and resources in relation to material sustainability matters (page 53)</p> <p><u>Paragraph 68.</u> Where the implementation of an action plan requires significant operational expenditures (Opex) and/or capital expenditures (Capex) the undertaking shall:</p> <p>(...)</p> <p>c) provide the amount of future financial resources.</p>	<p><u>Add point (d.)</u></p> <p>Where the implementation of an action plan requires significant operational expenditures (Opex) and/or capital expenditures (Capex) the undertaking shall:</p> <p>(...)</p> <p>c) provide the amount of future financial resources; and</p> <p>d) for undertakings with economic activities that are covered by the delegated regulation 2021/2139 under the Taxonomy Regulation (EU) 2020/852, the undertaking shall refer to the Technical Screening Criteria as defined in the delegated regulation of the Taxonomy Regulation (EU) 2020/852 to explain any objective or plan (Capex, Capex plans) that the undertaking has for aligning its economic activities with the criteria established in the delegated regulation 2021/2139.</p> <p>add footnote 1:</p>	<p>Including a reference to Taxonomy reporting in ESRS 2 to ensure consistent reporting across all environmental objectives/standards.</p> <p>The ESRS refer to ‘significant’ Opex and Capex, while the meaning of what can be considered as significant is not described in the ESRS.</p> <p>We understand that Opex and Capex as referred to in par. 68 are not Taxonomy-related.</p>

		Capex plans are defined in the delegated regulation 2021/2178 Annex I 1.1.2.2.	
1.14	<p>ESRS 2 - Minimum Disclosure Requirement – Actions MDR-A – Actions and resources in relation to material sustainability matters (page 59)</p> <p><u>AR. 22</u> Information on resource allocation may be presented in the form of a table and broken down between capital expenditure and operating expenditure, and across the relevant time horizons, and between resources applied in the current reporting year and resources the planned allocation of resources over specific time horizons.</p>	<p>Change text to: Information on resource allocation may be presented in the form of a table and broken down between capital expenditure and operating expenditure, and across the relevant time horizons, and between resources applied in the current reporting year and resources the planned allocation of resources over specific time horizons.</p> <p>For undertakings with economic activities that are covered by the delegated regulation 2021/2139 under the Taxonomy Regulation (EU) 2020/852, information on any objective or plans (Capex, Capex plans, Opex) that the undertaking has for aligning its economic activities with the criteria established in the delegated regulation 2021/2139 may be included and broken down between Capex, Capex plans, Opex. This information may be used to compare Capex, Capex plans, Opex for similar activities eligible in Taxonomy Regulation (EU) 2020/852.</p>	Including a reference to Taxonomy reporting in the ESRS 2 to ensure consistent reporting across all environmental objectives/standards.
1.15	<p>ESRS 2 Paragraph 67</p> <p><i>Minimum Disclosure Requirement – Actions MDR-A – Actions and resources in relation to material sustainability matters</i></p> <p><i>67. Where the implementation of a policy requires actions, or a comprehensive action plan, to achieve its objectives, as well as when actions are implemented without a specific policy, the undertaking shall disclose the following information:</i></p>	<p>In reference to ESRS 1 - 3.6</p> <p><i>67. Where the implementation of a policy requires actions, or a comprehensive action plan, to achieve its objectives, as well as when actions are implemented without a specific policy, the undertaking shall disclose the following information:</i> <i>a) the list of key actions taken in the reporting year and planned for the future, their expected outcomes including negative impacts and risks arising from such actions (referring to ESRS 1 paragraph 3.6), and where relevant, how their implementation contributes to</i></p>	<p>ESRS 1 -3:6 Material impacts or risks arising from actions to address sustainability matters, highlights cases when the actions taken by an undertaking to address impacts or risks (ie transition plans) might have material negative impacts or cause risks in relation to another sustainability matter (ie social or environmental).</p> <p>The paragraph states that ‘In such situations, the undertaking shall: (a) mention the existence of material negative impacts or material risks together with the actions that generate them, with</p>

	<p>a) the list of key actions taken in the reporting year and planned for the future, their expected outcomes and, where relevant, how their implementation contributes to the achievement of policy objectives and targets</p>	<p>the achievement of policy objectives and targets</p>	<p>a cross-reference to the topic to which the impacts or risks relate;</p> <p>This 3:6 isn't referenced anywhere else in the standards, while it is a very important prescription that enables to assess transition plans do no significant harm to other environmental objectives. While certain transition plans might use taxonomy aligned KPIs as a tool to plan, which would then satisfy DNSH, most likely some actions taken by companies/some activities won't fall under the taxonomy framework and this reference to 3:6 should ensure that the negative impact of an action is disclosed together with the action.</p> <p>Another suggestion would be to add reference to ESRS 1 – 3:6 to the general SBM (disclosure of impact), to link impact from an action with the action.</p>
1.16	<p>ESRS 1 112</p> <p>The undertaking shall include in its sustainability statement the disclosures pursuant to "Article 8 of Regulation (EU) 2020/852 of the European Parliament and the Council and Commission Delegated Regulations that specify the content of those disclosures. The undertaking shall ensure that these disclosures are separately identifiable within the sustainability statement. The disclosures relating to each of the environmental objectives defined in the Taxonomy Regulation shall be presented together in a clearly identifiable part of the environmental section of the sustainability statement. These disclosures are not subject to the qualitative characteristics of information defined in Appendix B of this Standard</p>	<p>The undertaking shall include in its sustainability statement the disclosures pursuant to "Article 8 of Regulation (EU) 2020/852 of the European Parliament and the Council and Commission Delegated Regulations that specify the content of those disclosures. The undertaking shall ensure that these disclosures are separately identifiable within the sustainability statement. The disclosures relating to each of the environmental objectives defined in the Taxonomy Regulation shall be presented together in a clearly identifiable part of the environmental section of the sustainability statement. These disclosures are not subject to the qualitative characteristics of information defined in Appendix B of this Standard. These disclosures are not subject to the qualitative characteristics of information defined in sections Relevance and Comparability</p>	<p>Taxonomy related disclosures are to be reported within the Sustainability report in a separate clearly identifiable section, however, this section is exempt from Appendix B qualitative characteristics. As a result, the information reported on Taxonomy will be held to a lower information quality standard. At the same time disclosures in accordance with other EU regulation and even voluntary standards/frameworks are subject to the qualitative characteristics of the requirements (see ESRS 1 113). This creates unbalanced treatment of the reported sustainability information and disadvantages Taxonomy related disclosures. It also creates complexity and lowers usability as different information quality standards apply to different parts of the Sustainability statement.</p>

		<i>Appendix B of this Standard, all other sections of Appendix B apply as far as relevant.</i>	
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Target-setting

The following comments aim to better align the ESRS targets with the scientific criteria and definitions of the Taxonomy.

Priority	ESRS (Commission proposal)	Proposed change	Short rationale
1.17	E2-3	Add 23 (e) Where the activity falls within its scope, position of the emissions limit values within the BAT-AEL range ¹ for emission limit values. When there is not a BAT-AEL range but a single value, the percentage of reduction with respect to this value	This does not increase reporting effort as compliance with BAT needs to be reported by all in-scope companies, but it would increase alignment with the Taxonomy, translates targets into the units the industry is used to and provides for easy comparison between targets.
1.18	E3-3	Add 23 (d) the achievement of good status of the water bodies affected by the undertaking as defined in the Water Framework Directive (e) good environmental status for marine waters as defined in the Marine Strategy Framework Directive.	This would ensure that progress towards achieving the goals of the WFD and MSFD can be better monitored. In addition, it would increase alignment with the Taxonomy, define an EU standard to measure progress against and provide for better comparison between targets.
1.19	E4 AR 18 (a) avoidance through Site Selection (Locate the entire project away from areas recognised for important biodiversity values);	avoidance through Site Selection (Locate the entire project away from protected areas and areas recognised for important biodiversity values);	This would increase alignment with the Taxonomy as well as with the SFDR PAI indicator. In addition, a location in or near protected areas is easier to determine and verify.
1.20	E4 AR 24 (a) size and location of all habitat areas protected or restored, whether directly or indirectly controlled by the undertaking, and whether the success of the restoration measure was or is approved by independent external professionals	size and location of all habitat areas protected or restored, whether directly or indirectly controlled affected by the undertaking, and whether the success of the restoration measure was or is approved by independent external professionals	“Control” may be hard to define, especially if indirect. What matters is the effect on the habitat.
1.21	E5-3 para 24: (a) the increase of circular product design (including for instance design for durability, dismantling, reparability, recyclability etc);	(a) the increase of circular product design (including for instance design for durability, reusability, upgradability, remanufacturing, dismantling, repairability, recyclability etc);	These are crucial aspects of a circular economy, see, e.g. EU (New) Circular economy action plan, Waste Framework Directive etc. It should be ensured that targets include them where applicable.

Conceptual consistency of ESRS environmental indicators with the Taxonomy

Pollution prevention and control

Note more detailed recommendations on pollution have been developed by TWG and are available if required.

	ESRS (Commission proposal)	Proposed change	Short rationale
1.22	<p>Definition of Substances of Concern (Annex II page 27) (proposal 1/2)</p> <p>b) is classified in Part 3 of Annex VI to Regulation (EC) 1272/2008 in one of the following hazard classes or hazard categories:</p>	<p>b) substances meeting the criteria for classification as [...] in accordance with Regulation (EC) No 1272/2008 of the European Parliament and the Council</p> <p>Replace “and” with “or” for :</p> <ul style="list-style-type: none"> - carcinogenic category - germ cell mutagenic category - toxic for reproduction category 	<p>Adaptation to that used in plastic packaging goods (TSC for CE). The origin of this list was the proposal of a list of Substances of Concern used in the proposal by Platform 1.0 for TSC-PPC for Chemical and Chemical products based on substitution of Substances of Concern and moved to plastic packaging goods to keep consistency between TSC. The original list by Platform 1.0 was later amended by the Commission for the final text. This final version is proposed to keep consistency with Taxonomy.</p>
1.23	<p>Definition of Substances of Concern (Annex II page 27) (proposal 2/2)</p> <p>c) any other substance that are set out in applicable EU legislation (note 18: In that regard, legislation in the wake of the EU Chemicals Strategy for Sustainability will be of particular importance.)</p>		<p>the entry to the glossary should spell out the relevant EU legal acts that apply, in consistence with the amendments to Appendix C – Generic DNSH for PPC of the Environmental Delegated Act.</p>
1.24	<p>Annex I. Page 109:</p> <p>The undertaking shall indicate, with regard to its own operations and its value chain, whether and how its policies address the following areas where material:</p> <p>(a) mitigating negative impacts related to pollution of air, water and soil including prevention and control;</p>	<p>Modifying point b as follow: (b) substituting and minimising the use of substances of concern, and phasing out substances of very high concern; and</p>	<p>There is no consensus about what essential use means.</p> <p>There was a consensus in Platform 1.0 about the substitution of Substances of Concern (or product containing them) as substantial contribution to Pollution Prevention and Control. Without infantizing any kind of product.</p>

	(b) substituting and minimising the use of substances of concern, and phasing out substances of very high concern, in particular for non-essential societal use and in consumer products; and (c) avoiding incidents and emergency situations, and if and when they occur, controlling and limiting their impact on people and the environment		The controversial point lied in the definition of Substances of Concern, that could be solved by the definition added now in Annex II
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Circular economy

	ESRS (Commission proposal)	Proposed change	Short rationale
1.25	p. 148: “This Standard sets out Disclosure Requirements related to “resource use” and “circular economy” and in particular on: .. (c) waste	One of the disclosure requirements should be rather on waste hierarchy than waste itself. Propose new wording under (c): ‘waste hierarchy’.	This recommendation is rather a conceptual one – under ‘Waste’, waste hierarchy in ESRS reporting is respected.
1.26	Circular Material Use Rate	Consider if this calculation shall be modified/explained in line with TSC mentioned under CE 3.1, 3.2 and 3.5	In CE DA (regarding construction), re-used construction products are counted as comprising zero primary raw material.
1.27	Multiple notions on the split between hazardous and non-hazardous waste	Consider to also ask for reporting on candidate list (in this sense, it would be considered a sub-category under hazardous waste)	In addition to disclosing information separately for hazardous and non-hazardous waste, disclosing information on hazardous substances listed on the REACH candidate list (SVHC) would increase the consistency with Taxonomy reporting.
1.28	Notion to recycling	Consider split into mechanical and chemical recycling	With a future possible increase of ‘chemical recycling route’, users might be interested into split as the waste hierarchy/Taxonomy prefers mechanical route over chemical. (Chemical route is already mentioned under ‘Manufacture of plastic packaging goods’ (see p. 5).

1.29	Outflows (para. 36, p. 152)	Add 36 (d) recyclability	In order to assure consistency, e.g. paragraph 24 (a) (see p. 151) mentions not only durability or repairability but also recyclability . Recyclability is also mentioned under Taxonomy CE Delegated act (e.g. Manufacture of EEE, Manufacture of packaging goods).
1.30	Minimisation of virgin raw material (p. 151)	CE DA doesn't mention 'virgin' in its text; suggest to re-word such notions to 'primary raw material'	While a measure of primary material use is important, it can be sufficient to draw information from Circular Material Use Rate (CE DA doesn't specifically address this; if some TSC refer to minimisation of primary raw materials, it is through use of secondary raw materials)

Biodiversity

	ESRS (Commission proposal)	Proposed change	Short rationale
1.31	<p>15. The undertaking may disclose its transition plan to improve and ...</p> <p>16. e) iii If these impacts are unavoidable, the undertaking may indicate its plans to minimise them .</p> <p>The undertaking may disclose whether and how it has used biodiversity and ecosystems scenario analysis ...</p> <p>If the undertaking has used such scenario analysis, it may disclose the following information ...</p> <p>The undertaking may disclose whether ecological thresholds and allocations of impacts to the undertaking were applied when setting targets.</p>	Replace "may" by "shall".	Subject to a materiality assessment, these disclosures should be mandatory since they regard the potential of the undertaking to reduce relevant impacts on ecosystems and biodiversity. The precautionary principle requires them to be disclosed. They are relevant for FMPs and Fis and other stakeholders as they provide information relevant for the undertaking's business outlook.

1.32	<p>35. If the undertaking has identified material impacts with regards to land-use change, or impacts on the extent and condition of ecosystems, it may also disclose their land-use based on a Life Cycle Assessment.</p>	<p>Replace “may” by “shall”.</p> <p>If considered necessary under a “shall” condition, replace “Life Cycle Assessment” by “life cycle considerations”.</p>	<p>Land use and land use changes are the biggest drivers of biodiversity loss and ecosystem deterioration. For many companies, the main land use impact is in the value chain (food production, metal processing, energy/utilities etc.). If material, these impacts need to be disclosed.</p> <p>If there are concerns that no robust LCA method is available, “based on life cycle considerations” could allow for a less technical approach.</p>
1.33	<p>Disclosure Requirement E4-3 – Actions and resources related to biodiversity and ecosystems</p> <p>In addition, the undertaking shall:</p> <p>(a) disclose how it has applied the mitigation hierarchy with regard to its actions (avoidance, minimisation, restoration/rehabilitation, and compensation or offsets);</p> <p>(b) disclose whether it used biodiversity offsets in its action plans. If the actions contain biodiversity offsets, the undertaking shall include the following information:</p> <p>i. the aim of the offset and key performance indicators used;</p> <p>ii. the financing effects (direct and indirect costs) of biodiversity offsets in monetary terms; and;</p> <p>iii. a description of offsets including area (...)</p>	<p>iiii. offsets may only be utilised as a last resort after demonstrating all other mitigation measures have been utilised, and cannot be counted towards attaining a biodiversity targets set by the undertaking.</p>	<p>It should be explicit that biodiversity offsets represent a ‘last resort’ measure that is taken to limit any negative impacts on biodiversity following the full application of the mitigation hierarchy.</p> <p>Therefore, it is proposed that offsets only be used by the undertaking to describe how it is limiting impact or doing no significant harm, and not as part of a target set for biodiversity.</p>
1.34	<p>E4-5: AR 30. With regard to life cycle assessment for land-</p>	<p>Replace the reference to the “Land-use related environmental indicators for</p>	<p>ESRS should refer to the most recent relevant study by the JRC.</p>

	use, the undertaking may refer to the “Land-use related environmental indicators for Life Cycle Assessment” by the Joint Research Center.	Life Cycle Assessment” report (JRC ,2016) by the more recent JRC publication on the topic: Damiani et al, 2023: Critical review of methods and models for biodiversity impact assessment and their applicability in the LCA context; Environmental Impact Assessment Review, Vol. 101, July 2023	
1.35	Current definition for Natural resources is: "Natural assets (raw materials) occurring in nature that can be used for economic production or consumption."	Natural Resources: A feature or component, including assets of the natural environment that is of value in serving human needs, e.g., raw materials, soil, water, plantlife, wildlife, etc. Some natural resources have an economic value (e.g. timber) while others have a "noneconomic" value (e.g. scenic beauty).	The definition is too narrow in scope and concentrates only on economic production and consumption. The proposed EEA definition reflects a broader concepts that is more appropriate.

Consistency with wider EU sustainable finance framework

Consistency of ESRS with SFDR PAI and BMR

Please see Annex II for the detailed technical comments of the Platform regarding the PAIs indicators which are mostly equally valid for the ESRS given that many PAIs have their equivalent in the ESRS.

Priority	ESRS (Commission proposal)	Proposed change	Short rationale
2.1	ESRS 2 General Disclosures ESRS 2 SBM-1 Involvement in activities related to fossil fuel activities paragraph 40 (d) i	Change text to: "the fossil fuel (disaggregated by coal, oil and gas) sector, i.e., it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU)	ESRS does not fulfil SFDR PAI and BMR Requirements. If coal breakout is required in SFDR PAI and BMR requirements, metric must be required in ESRS. Coal revenue needs to be reported separately from fossil fuels. For reference: SFDR PAI 4 Requirement in ESA's Joint Consultation Paper: “b) Share of investments in companies active in the coal sector”

		2018/1999 of the European Parliament and the Council;"	BMR PAB Exclusion Criteria: “(d) companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;”
2.2	ESRS 2 General Disclosures ESRS 2 SBM-1 Involvement in activities related to controversial weapons paragraph 40 (d) iii	Definition of “involvement in controversial weapons” needs to be consistent across ESRS, SFDR, and BMR.	For reference: SFDR PAI 14: “Share of investments in investee companies involved in the manufacture or selling of controversial weapons” (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) BMR PAB Exclusion Criteria: “(a) companies involved in any activities related to controversial weapons;” ESRS: “iii) controversial weapons such as anti-personnel mines, cluster munitions, chemical weapons and biological weapons; and/or”

Consistency of ESRS with CRR/CDR Pillar 3 ITS

#	ESRS (Commission proposal)	Proposed change (with recommended wording if possible)	Short rationale
2.3	3.2, 29. - Material matters and materiality of information (page 6) <i>Irrespective of the outcome of its materiality assessment, the undertaking shall always disclose the information required by ESRS 2 General Disclosures (i.e. all the Disclosure Requirements and data points specified in ESRS 2).</i>	<i>Irrespective of the outcome of its materiality assessment, the undertaking shall always disclose the information required by ESRS 2 General Disclosures (i.e. all the Disclosure Requirements and data points specified in ESRS 2), and ESRS E1 climate change.</i>	There is a high overlap between the datapoints in ESRS E1 and P3 ITS (+70% overlap). The new requirement introduced to apply a materiality assessment to all standards, including climate, will have significant impact on the quality and data availability for disclosure under the Pillar 3 ITS. Banks disclosing under P3 ITS require granular information for their disclosure from all companies and sectors, irrespective of their own materiality assessment. Proposed change is to ensure the interoperability and consistency between ESRS and P3 ITS, exempting

			ESRS E1 from the materiality assessment entirely.
2.4	<p>E1-9 - Anticipated financial effects from material physical and transition risks and potential climate-related opportunities (page 81)</p> <p>Par. 68(e). - the monetary amount and proportion (percentage) of net revenue from its business activities at material transition risk over the short-, medium- and long-term time horizons including, where relevant, the net revenue from the undertaking's customers operating in coal, oil and gas-related activities.</p>	<p>Change text to:</p> <p>Par. 68(e). <i>the monetary amount and proportion (percentage) of net revenue from its business activities at material transition risk over the short-, medium- and long-term time horizons including, where relevant, the net disaggregated revenue from the undertaking's customers operating in coal, oil and gas-related activities.</i></p>	<p>Rationale for changes to the text:</p> <p>Disaggregated information of activities by sector (coal, oil and gas) is necessary for P3 ITS.</p> <p>Proposed changes are to improve the usability and consistency between datapoints in ESRS and P3 ITS.</p>
2.5	<p>E1-9 – Anticipated financial effects from material physical and transition risks and potential climate-related opportunities (page 104)</p> <p>AR 74.b - The energy efficiency shall be represented in terms of either the ranges of energy consumption in kWh/m² or the EPC42 (Energy Performance Certificate)43 label class</p>	<p>Change text to:</p> <p>AR 74.b - <i>The energy efficiency shall be represented in terms of either the ranges of energy consumption in kWh/m² or and the EPC (Energy Performance Certificate) label class.</i></p>	<p>Rationale for changes to the text:</p> <p>Information necessary to fulfil the disclosure requirements of P3 ITS and recommendation to keep this in the sector-agnostic disclosure requirements as energy efficiency is cross-cutting.</p> <p>Proposed changes are to improve and maintain the usability and consistency between datapoints in ESRS and P3 ITS.</p>
2.6	<p>ESRS 2, SBM-1 Involvement in activities related to fossil fuel activities paragraph 40 (d) I (page 47)</p> <p>Par. 40. The undertaking shall disclose the following information about the key elements of its general strategy that relate to or affect sustainability matters:</p> <p>d. where applicable, a statement indicating, together with the related revenues, that the undertaking is active in:</p> <p>i) the fossil fuel (coal, oil and gas) sector¹⁴, i.e., it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and</p>	<p>Change text to:</p> <p>"the fossil fuel (disaggregated by coal, oil and gas) sector, i.e., it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council;"</p>	<p>Disaggregated information of activities by sector (coal, oil and gas) is necessary for P3 ITS.</p> <p>Proposed changes are to improve the usability and consistency between datapoints in ESRS and P3 ITS.</p> <p>This point is also relevant for the interoperability with SFDR PAI and BMR.</p>

	trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council;		
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2.7	<p>(DRAFT ESRS) Disclosure Requirement related to ESRS 2 IRO-1 Description of the processes to identify and assess material climate-related impacts, risks and opportunities (page 85)</p> <p>AR 13.c - <i>When disclosing the information on the processes to identify transition risks and opportunities as required under paragraph 20 (c), the undertaking shall explain whether and how it has:</i></p> <p><i>(c) informed the identification of transition events and the assessment of exposure by climate-related scenario analysis, considering at least a scenario consistent with the Paris Agreement and limiting climate change to 1.5°C, for example, based on scenarios of the International Energy Agency (Net zero Emissions by 2050, Sustainable Development Scenario, etc), or NGFS (Network for Greening the Financial System) climate scenarios.</i></p>	<p><i>When disclosing the information on the processes to identify transition risks and opportunities as required under paragraph 20 (c), the undertaking shall explain whether and how it has:</i></p> <p><i>(c) informed the identification of transition events and the assessment of exposure by climate-related scenario analysis, considering at least a scenario consistent with the Paris Agreement and limiting climate change to 1.5°C, for example, based on scenarios of the International Energy Agency (Net zero Emissions by 2050, Sustainable Development Scenario, etc), or NGFS (Network for Greening the Financial System) climate scenarios. The undertaking shall disclose which scenario it has used for its analysis.</i></p>	<p>Scenario analysis, based on the IEA Net Zero Emissions by 2050 Scenario (NZE2050) is a key component of P3 ITS.</p> <p>The alignment metric in the ITS captures the extent to which financial flows are consistent with a pathway towards low greenhouse gas emissions and climate-resilient development as defined in the Paris Agreement. The economic scenario that describes that decarbonisation pathway is the IEA Net Zero Emissions by 2050 Scenario (NZE2050).</p> <p>Banks can draw from the information disclosed in the ESRS to comply with their own disclosure requirements in P3 ITS. By adding a requirement for undertakings to disclose which scenario has been used for the analysis, it improves the complementarity between the two frameworks and respective datapoints.</p>
2.8	<p>ESRS E4-1 – Transition plan and consideration of biodiversity and ecosystems in strategy and business model</p> <ul style="list-style-type: none"> - Compatibility of business model and strategy with “planetary boundaries” 	<p><i>the undertaking may shall disclose</i></p>	<p>The P3 ITS reviewed is planned for 2024 with the objective of including environmental risks to the disclosure requirements (following the Taxonomy expansion).</p> <p>The changes introduced in the ESRS 4 draft exclude several disclosure requirements from mandatory reporting.</p>

	<p>ESRS E4-5 – Impact metrics related to biodiversity and ecosystem change</p> <ul style="list-style-type: none"> - Metrics on invasive alien species, impact drivers of land-use change, and ecosystem extent and condition. - Land-use based on life-cycle assessment. <p><i>“the undertaking may disclose”</i></p>		<p>This may create relevant interoperability and consistency challenges between ESRS and P3 ITS.</p>
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The following references should be added to the table from Appendix B of the proposed ESRS (page 60) under the column for CRR/CRD Pillar 3 related requirements:

- ESRS 2 SBM-1 Involvement in activities related to fossil fuel activities: Article 449a CRR; Table 1: Qualitative information on Environmental risk and Table 2: Qualitative information on Social risk;
- ESRS E1-4 GHG emission reduction targets: Article 449a CRR; Template 3: Banking book – Climate change transition risk: alignment metrics;
- ESRS E1-6 Gross scope 1,2,3 and Total GHG emissions: Article 449a CRR; Template 1: Banking book – Climate change transition risk: Credit quality of exposures by sector, emissions and residual maturity;
- ESRS E1-6 Gross GHG emissions intensity: Article 449a CRR; Template 3: Banking book – Climate change transition risk: alignment metrics.

Materiality assessment and assurance

	ESRS (Commission proposal)	Proposed change (with recommended wording if possible)	Short rationale
3.1	<p>ESRS 1. 1. On estimates. Appendix B, QC 9, p29: Information can be accurate without being perfectly precise in all respects. Accurate information implies that the undertaking has implemented adequate processes and internal controls to avoid material errors or material misstatements. As such, estimates shall be presented with a clear emphasis on their possible limitations and associated uncertainty (see</p>	<p>Add a bullet referencing the <u>precautionary principle</u> (new d below).</p> <p>For example, accuracy requires that:</p> <ul style="list-style-type: none"> (a) factual information is free from material error; (b) descriptions are precise; (c) estimates, approximations and forecasts are clearly identified as such; 	<p>Estimates are challenging. When in doubt a potential err would be on the side of the planet as stated in the precautionary principle. If not referenced here it will likely not be applied when using estimates.</p>

	<p>section 7.2 of this Standard). The amount of precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses. For example, accuracy requires that:</p> <ul style="list-style-type: none"> (a) factual information is free from material error; (b) descriptions are precise; (c) estimates, approximations and forecasts are clearly identified as such; (d) no material errors have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable; (e) assertions are reasonable and based on information of sufficient quality and quantity; and (f) information about judgements about the future faithfully reflects both those judgements and the information on which they are based. 	<p><i>(new d) In case of uncertainties always err on the side of the environment as stated in the precautionary principle</i></p>	
3.2	<p>ESRS 2. 2. On Governance. P44 GOV-1, 22 c) c) a description of management’s role in assessing and managing impacts, risks and opportunities, including:</p> <ul style="list-style-type: none"> i) whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee; ii) information about the reporting lines to the administrative, management and supervisory bodies; iii) whether dedicated controls and procedures are applied to the management of impacts, risks and opportunities and, if so, how they are integrated with other internal functions; and 	<p>Add a bullet (new iiiii) referencing the precautionary principle and how the Board has applied it. For example:</p> <ul style="list-style-type: none"> i) whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee; ii) information about the reporting lines to the administrative, management and supervisory bodies; iii) whether dedicated controls and procedures are applied to the management of impacts, risks and opportunities and, if so, how they are integrated with other internal functions; 	<p>With the known challenge of lack of data, it would be of interest to increase transparency of the Board’s governance to ensure potential errs are on the side of the planet.</p>

		(new) <i>iii) whether and how the precautionary principle has been applied;</i> and	
3.3	ESRS 1. p5 §18 Drafting conventions. shall, may and shall consider. ESRS use the following terms to distinguish between different degrees of obligation on the undertaking to disclose information: (a) “shall disclose” – indicates that the provision is prescribed by a Disclosure Requirement or datapoint: (b) “may disclose” – indicates voluntary disclosure to encourage good practice. In addition, ESRS use the term “shall consider” when referring to issues, resources or methodologies that the undertaking is expected to take into account or to use in the preparation of a given disclosure if applicable.	In addition, ESRS use the term “shall consider” when referring to issues, resources or methodologies that the undertaking is expected to take into account or to use in the preparation of a given disclosure if applicable. <i>If there is no significant reason to not consider the “shall consider” items, they are to be complied with as standard.</i>	It is unclear of whether the “shall consider” is a demand or not. For assurance providers it would be clearer with a clarification. For example, shall the company need to show that it has assessed the matter and deemed it not to disclose.
3.4	ESRS 1/31. If the undertaking concludes that a topic is not material and therefore it omits all the Disclosure Requirements in a topical ESRS, it may briefly explain the conclusions of its materiality assessment for that topic (see ESRS 2 IRO-2 Disclosure Requirements in ESRS covered by the undertaking’s sustainability statement).	If the undertaking concludes that a topic is not material and therefore it omits all the Disclosure Requirements in a topical ESRS, it shall briefly explain the conclusions of its materiality assessment for that topic (see ESRS 2 IRO-2 Disclosure Requirements in ESRS covered by the undertaking’s sustainability statement).	When an entire sustainability topic is deemed immaterial and therefore an entity does not apply an entire standard it SHALL disclose a short explanation why this is the case. It is essential for financial market participants and institutions to understand why an entire topic is deemed immaterial in order to be able to, in turn, act upon when managing its own ESG risks.
3.5	ESRS 2. 5. Metric and targets, Appendix B, p60 the cross-reference table.	Add a reference between materiality, in particular financial materiality, and CRR/CRD Pillar 3.	While an exact disclose requirements tag to Pillar 3 may be missing the essence of SMB, and financial materiality in particular, is well in line with CRR/CRD Pillar 3. CRR/CRD Pillar 3 has different supervision that the CSRD and a reference would strengthen interoperability. For example: ESRS 1. 3.5 Financial materiality, p9: 49. A sustainability matter is

			<p>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 or may generate 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.</p>
3.6	<p>AR 11 Any of the three characteristics (scale, scope, and irremediable character) can make a negative impact severe. In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.</p>	<p>AR 11: Any of the three characteristics (scale, scope, and irremediable character) can make a negative impact severe. The severity of the impact takes precedence over its likelihood.</p>	<p>It is of utmost importance to preserve AR11 in the DA. Moreover, we suggest broadening this approach by the sentence: 'The severity of impact takes precedence over its likelihood.', applying to all impacts, not only direct human rights impacts. This reflects the precautionary principle. Mitigating climate change, preserving ecosystems etc. does have potential negative human rights impacts.</p>
3.7	<p>Paragraph 48 of the ESRS 1</p> <p>Part 1: "The financial materiality assessment described in paragraph 37 includes, but is not limited to, the identification of information that is considered material for primary users of general-purpose financial reporting in making decisions relating to providing resources to the entity."</p> <p>Part 2: "In particular, information is considered material for primary users of general-purpose financial reporting if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's sustainability statement."</p>	<p>Delete the reference to wider stakeholders</p>	<p>The Platform would like to raise concerns about the definition of 'financial materiality', which diverges from the definition in the ISSB standards. The concern relates to paragraph 48 of the ESRS 1, which sets out the scope and audience of financial materiality as per the double materiality approach in the standard. The second part of paragraph 48 aligns with the IASB/ISSB definition of financial materiality, which considers the information needs of investors (primary users of general-purpose financial reports). However, the first part expands the scope and audience to other stakeholders by adding "is not limited to". While the Platform agrees and commends the intention, it believes that the wider stakeholders could be covered by the 'impact materiality' provision of the ESRS 'double materiality' perspective.</p>

Other comments

	ESRS (Commission proposal)	Proposed change (with recommended wording if possible)	Short rationale
4.1	ESRS 1/134. Starting from the fourth year of its reporting under the ESRS, the undertaking shall include value chain information according to paragraph 67. In this context, the information required by ESRS to be obtained from SME undertakings in the undertaking's value chain will not exceed the content of the future ESRS for listed SMEs	134. Starting from the fourth year of its reporting under the ESRS, the undertaking shall include value chain information according to paragraph 637. In this context, the information required by ESRS to be obtained from SME undertakings in the undertaking's value chain will not exceed the content of the future ESRS for listed SMEs. If the information required by ESRS is to be obtained from non-listed SME undertakings in the undertaking's value chain, which is using the voluntary reporting standard, currently under development by EFRAG, that is tailored to SMEs, the requested information should be limited to this standard.	<ul style="list-style-type: none"> - wrong reference - consistency with point 13.3 of the Commission Recommendation on facilitating finance for the transition to a sustainable economy (13 June 2023).
4.2	ESRS 1/120. Provided that these conditions are met, information prescribed by a Disclosure Requirement of an ESRS, including a specific datapoint prescribed by a Disclosure Requirement, may be incorporated in the sustainability statement.	Provided that the conditions of 119 are met, information prescribed by a Disclosure Requirement of an ESRS, including a specific datapoint prescribed by a Disclosure Requirement, may be incorporated in the sustainability statement.	<ul style="list-style-type: none"> - reference unclear - ...these conditions... - reference only to 119 (not 118).
4.3	ESRS 1/133. Paragraphs 1131 and 132 apply irrespective of whether or not the relevant actor in the value chain is an SME	133. Paragraphs 131 and 132 apply irrespective of whether the relevant actor in the value chain is an SME or not.	<ul style="list-style-type: none"> - wrong reference - position of "or not" makes point clearer

4.4	ESRS 1/71. With reference to policies, actions and targets, the undertaking's reporting shall include 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 value chain, for example, when calculating the undertaking's GHG Scope 3 emissions.	71. With reference to policies, actions and targets, the undertaking's reporting shall include value chain information to the extent that those policies, actions and targets involve actors in the value chain. With reference to metrics, in certain cases, especially regarding SMEs, and when justified by impact , 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 value chain, for example, when estimating the undertaking's GHG Scope 3 emissions.	<ul style="list-style-type: none"> - proportionality / limit trickle-down-effect on SMEs - further work ought to be conducted to determine which indicators and for which SMEs are applicable – including the ESRS for listed SMEs and the EFRAG voluntary standard for SMEs
4.5	ESRS 1/Appendix C	Additional AR required.	The List of phased-in should be applicable if undertakings exceed the thresholds of the Accounting Directive for the first time and become large undertakings and have to report on ESRS. To avoid any discussion on the interpretation the application requirements ("first year of preparation of their sustainability statement") should mention this particular situation.

Annex II - Analysis of ESRS provisions linked to EU legislation

The table below includes some requests for clarification (highlighted in light green).

#	Disclosure Requirement and related datapoint	SFDR	Benchmark regulation	Pillar 3	Comments on current draft ESRS DA
1	ESRS 2 GOV-1 Board's gender diversity paragraph 21 (d)	Indicator n.13 of Table #1 of Annex 1	Commission Delegated Regulation (CDR) (EU) 2020/1816, Annex II		Always mandatory as per ESRS 2
2	ESRS 2 GOV-1 Percentage of board members who are independent paragraph 21 (e)		CDR (EU) 2020/1816, Annex II		Always mandatory as per ESRS 2
3	ESRS 2 SBM-1 Involvement in activities related to fossil fuel activities paragraph 40 (d) i	Indicator n. 4 Table #1 of Annex 1	CDR (EU) 2020/1816, Annex II	Article 449a CRR; Table 1: Qualitative information on Environmental risk and Table 2: Qualitative information on Social risk	Always mandatory as per ESRS 2
4	ESRS 2 SBM-1 Involvement in activities related to chemical production paragraph 40 (d) ii	Indicator n. 9 Table #2 of Annex 1	CDR (EU) 2020/1816, Annex II		Always mandatory as per ESRS 2
5	ESRS 2 SBM-1 Involvement in activities related to controversial weapons paragraph 40 (d) iii	Indicator n. 14 Table #1 of Annex 1	CDR (EU) 2020/1818, Article 12 (1) CDR (EU) 2020/1816, Annex II		Always mandatory as per ESRS 2
6	ESRS 2 SBM-1 Involvement in activities related to cultivation and production of tobacco paragraph 40 (d) iv		CDR (EU) 2020/1818, Article 12 (1) CDR (EU) 2020/1816, Annex II		Always mandatory as per ESRS 2

#	Disclosure Requirement and related datapoint	SFDR	Benchmark regulation	Pillar 3	Comments on current draft ESRS DA
7	ESRS E1-1 Undertakings excluded from Paris-aligned Benchmarks paragraph 16 (f)		CDR (EU) 2020/1818, Article 12.1 (d) to (g), and Article 12.2	Article 449a Capital Requirements Regulation – CRR; Template 1: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity	Subject to materiality To clarify: interplay between ESRS 1 par. 32 and par.33.
8	ESRS E1-4 GHG emission reduction targets paragraph 35	Indicator n. 4 Table #2 of Annex 1	CDR (EU) 2020/1818, Article 6	Article 449a CRR; Template 3: Banking book – Climate change transition risk: alignment metrics	Subject to materiality To clarify: interplay between ESRS 1 par. 32 and par.33.
9	ESRS E1-5 Energy consumption from fossil sources disaggregated by sources (only high climate impact sectors) paragraph 39	Indicator n. 5 Table #1 and Indicator n. 5 Table #2 of Annex 1			Subject to materiality
10	ESRS E1-5 Energy consumption and mix paragraph 38	Indicator n. 5 Table #1 of Annex 1			Subject to materiality
11	ESRS E1-5 Energy intensity associated with activities in high climate impact sectors paragraphs 41 to 44	Indicator n. 6 Table #1 of Annex 1			Subject to materiality
12	ESRS E1-6 Gross Scope 1, 2, 3 and Total GHG emissions paragraph 45	Indicators n. 1 and 2 Table #1 of Annex 1	CDR (EU) 2020/1818, Article 5(1), 6 and 8(1) CDR (EU) 2020/1816, Annex II	Article 449a CRR; Template 1: Banking book – Climate change transition risk: Credit quality of exposures by sector, emissions and residual maturity	Subject to materiality
13	ESRS E1-6 Gross GHG emissions intensity paragraphs 54 to 56	Indicators n. 3 Table #1 of Annex 1	CDR (EU) 2020/1818, Article 8(1) CDR (EU) 2020/1816, Annex II	Article 449a CRR; Template 3: Banking book – Climate change transition risk: alignment metrics	Subject to materiality

#	Disclosure Requirement and related datapoint	SFDR	Benchmark regulation	Pillar 3	Comments on current draft ESRS DA
14	ESRS E1-9 Disaggregation of monetary amounts by acute and chronic physical risk paragraph 67 (a) ESRS E1-9 Location of significant assets at material physical risk paragraph 67 (c).			Article 449a CRR; Final ITS, paragraphs 46 and 47; Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk.	Subject to materiality
15	ESRS E1-9 Breakdown of the carrying value of its real estate assets by energy-efficiency classes paragraph 68 (c).			Article 449a CRR; Final ITS, paragraph 34; Template 2: Banking book – Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral	Subject to materiality
16	ESRS E2-4 Amount of each pollutant listed in Annex II of the E-PRTR Regulation (European Pollutant Release and Transfer Register) emitted to air, water and soil, paragraph 28	Indicator n. 8 Table #1 of Annex 1 Indicator n. 2 Table #2 of Annex 1 Indicator n.1 Table #2 of Annex 1 Indicator n. 3 Table #2 of Annex 1			Subject to materiality
17	ESRS 2- IRO 1 - E4 paragraph 17 (b) i	Indicator n. 7 Table #1 of Annex 1			Subject to materiality To clarify: whether this requirement is always to be met given that it is linked to an ESRS 2 requirement.
18	ESRS E5-5 Hazardous waste and radioactive waste paragraph 39	Indicator n.9 Table #1 of Annex 1			Subject to materiality

#	Disclosure Requirement and related datapoint	SFDR	Benchmark regulation	Pillar 3	Comments on current draft ESRS DA
19	ESRS S1-1 Human rights policy commitments paragraph 20	Indicator n. 9 Table #3 and Indicator n. 11 Table #1 of Annex I			Subject to materiality To clarify: interplay between ESRS 1 par. 32 and par.33.
20	ESRS S1-1 Due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8, paragraph 21		CDR (EU) 2020/1816, Annex II		Subject to materiality To clarify: interplay between ESRS 1 par. 32 and par.33.
21	ESRS S1-16 Unadjusted gender pay gap and weighted average gender pay gap paragraph 97 (a)	Indicator n. 12 Table #1 of Annex I	CDR (EU) 2020/1816, Annex II		Subject to materiality
22	ESRS S1-17 Non-respect of UNGPs on Business and Human Rights and OECD paragraph 104 (a)	Indicator n. 10 Table #1 and Indicator n. 14 Table #3 of Annex I	CDR (EU) 2020/1816, Annex II CDR (EU) 2020/1818 Art 12 (1)		Subject to materiality
23	ESRS S2-1 Human rights policy commitments paragraph 17	Indicator n. 9 Table #3 and Indicator n. 11 Table #1 of Annex 1			Subject to materiality To clarify: interplay between ESRS 1 par. 32 and par.33.
24	ESRS S2-1 Non-respect of UNGPs on Business and Human Rights principles and OECD guidelines paragraph 19	Indicator n. 10 Table #1 of Annex 1	CDR (EU) 2020/1816, Annex II CDR (EU) 2020/1818, Art 12 (1)		Subject to materiality
25	ESRS S3-1 Human policy commitments paragraph 16	Indicator n. 9 Table #3 of Annex 1 and Indicator n. 11 Table #1 of Annex 1			Subject to materiality To clarify: interplay between ESRS 1 par. 32 and par.33.
26	ESRS S3-1 non-respect of UNGPs on Business and Human Rights, ILO principles or and OECD guidelines paragraph 17	Indicator n. 10 Table #1 Annex 1	CDR (EU) 2020/1816, Annex II CDR (EU) 2020/1818, Art 12 (1)		Subject to materiality

#	Disclosure Requirement and related datapoint	SFDR	Benchmark regulation	Pillar 3	Comments on current draft ESRS DA
27	ESRS S4-1 Policies related to consumers and end-users paragraph 16	Indicator n. 9 Table #3 and Indicator n. 11 Table #1 of Annex 1			Subject to materiality To clarify: interplay between ESRS 1 par. 32 and par.33.
28	ESRS S4-1 Non-respect of UNGPs on Business and Human Rights and OECD guidelines paragraph 17	Indicator 10 Table #1 of Annex 1	CDR (EU) 2020/1816, Annex II CDR (EU) 2020/1818, Art 12 (1)		Subject to materiality
29	ESRS G1-4 Fines for violation of anti-corruption and anti-bribery laws paragraph 24 (a)	Indicator n. 17 Table #3 of Annex 1	CDR (EU) 2020/1816, Annex II)		Subject to materiality

Annex III – Recommendations for PAI indicators under SFDR

The Platform gave a series of technical recommendations to the ESAs with regard to the Principal Adverse Impact (PAI) indicators. Given that most of the PAI indicators are also included in the ESRS, the Platform recommends the European Commission to carefully consider the technical observations and to ensure that those recommendations that are integrated in the ESRS are equally addressed in the SFDR RTS.

Indicators		PSF Comment
Environmental Indicators		
4. Exposure to companies active in the fossil fuel sector	a) Share of investments in companies active in the fossil fuel sector b) Share of investments in companies active in the coal sector	<p>The Platform suggests splitting the % of revenue and Capex by coal & other solid fossil fuels, oil, and gas. Thresholds:</p> <ul style="list-style-type: none"> - 1%, 10% and 50% for coal, oil and gas revenues to align with PAB thresholds. - 1%, 5% and 10% for coal & other solid fossil fuels, oil and gas Capex to be tougher than PAB threshold as Capex is much more fungible than revenue and is a forward-looking KPI.
6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	<p>The Platform suggests reflecting on specific NACE Codes. NACE sections A to H and L include:</p> <ul style="list-style-type: none"> • manufacture of bicycles • manufacture and operation of renewable energy technologies • manufacture of healthcare equipment, life science diagnostics, etc. • manufacture of doors, windows, lights that could be eco-labelled • manufacture of ZEVs • manufacture of recycling equipment • waste management including CCUS and recycling services etc. <p>All of these elements could qualify as Taxonomy-aligned (or not, be taxonomy eligible in the case of healthcare)</p>

7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	<p>The Platform recommends that for the mandatory biodiversity PAI indicator, two options are advised to modify the definition of ‘activities negatively affecting biodiversity-sensitive areas’.</p> <p>Option A: mitigation measures are fully excluded from the definition, given that they do not ensure no significant harm to biodiversity.</p> <p>Option B: if mitigation measures are kept, the Platform recommends carrying out and implementing Environmental Impact Assessments (EIAs) is mandatory and these are publicly disclosed or, for activities located in third countries, conclusions, and equivalent environmental impact assessments are adopted in accordance with national provisions or international standards and publicly disclosed. The Platform asks for greater consideration for international standards to apply, specifically concerning those jurisdictions which do not have EIA practices.</p> <p>The Platform expresses a preference towards Option A, given the low confidence in both EIAs as mitigation measures and substantial lack of data by governments worldwide quantifying the degradation and intactness of ecosystems that can be attributed to different types of economic activities.</p> <p>The Platform also recommends that the definition of biodiversity-sensitive areas for the mandatory biodiversity PAI indicator is extended to areas of high intactness and biodiversity value outside of protected areas.</p> <p>Furthermore, the Platform recommends the ESAs consider the definition of high biodiversity value outside of protected areas in accordance with the renewed (EU) 2018/2001. The Platform further encourages the ESAs to consider including a definition of biodiversity value in oceans, seas, coasts and inland water ecosystems, which EU 2018/2001 does not contain.</p>
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8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested	The Platform also suggests looking into possible alternative indicators such as water ecotoxicity as optional indicators.
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Indicators applicable to investments in sovereigns and supranationals

19. Sovereign GHG intensity	GHG intensity of investee countries as a ratio of investee country’s GDP	<p>Sovereign carbon emissions for Scope 3, provided by OECD, are as of 2018. However, Scope 1 & 2 data, already sourced by different providers, correspond to 2019. Combining these would mean mixing carbon emissions from different years.</p> <p>The attribution factor should be changed from GDP to Purchasing Power Parity (PPP)-adjusted GDP for PAI reporting of the Sovereign</p>
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		carbon footprint. This leads to a fairer reflection of a country's actual economy size as exchange rate effects are eliminated and comparability of actual economy sizes is enhanced.
20. Investee countries subject to social violations	Number of investee countries subject to social violations, as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	This requires investments in select countries/all investments, not a count of countries as the PAI description suggests. The Platform suggests editing the descriptions of the PAI and calculation to fully match. It would be beneficial if the EC and the ESAs could provide more clarity on the interpretation of social violations and ideally even reference to a publicly available database / assessment. The Platform observes very divergent interpretations of social violations, which makes comparability essentially impossible on PAI number 20.

Additional Environmental Indicators

2. Emissions of air pollutants	Tonnes of air pollutants equivalent per million EUR invested	The use of available (and scientifically accepted) characterisation factors for the currently reported substances to obtain environmental impact values as indicator (similar approach done for GWP), instead of mass indicators, could be explored. The Platform specifically suggests Toxicity (e.g., tonnes of 1,4 DCB equivalent; other units available in literature).
3. Emissions of ozone-depleting substances	Tonnes of ozone-depleting substances equivalent per million EUR invested	The use of available (and scientifically accepted) characterisation factors for the currently reported substances to obtain environmental impact values as indicator (similar approach done for GWP), instead of mass indicators, should be explored. The Platform specifically suggests Ozone-depleting potential (ODP). (E.g., tonnes of CFC-11 equivalent, using relative ODP reported in The Montreal Protocol).
4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	In order to be consistent with ESRS, the Platform recommends using the terminology 'climate change mitigation actions' instead of 'carbon emission reduction initiatives', which are not well defined, and 1.5 degrees instead of Paris Agreement, => 'climate change mitigation actions compatible with limiting global warming to 1.5°C'. While it is hard to determine whether this action is 'aimed at aligning with the Paris Agreement', a suggestion could be to reference either the company's transition plan or target (i.e. Actions in line with the company's GHG emission reduction targets).
6. Water usage and recycling	2. Percentage of water recycled and reused by investee companies	The Platform proposes to make this indicator based on m ³ of reused (or recycled) water coming from other user(s) / m ³ of total water consumption (%). Counting internal recycling or reusing flows would not help to quantify the environmental impact.

		<p>This would affect the numerator of Equation 29 as follows: amount of water recycled and reused by investee company from external waste streams.</p> <p>The Platform recommends using the amount of water recycled and reused by investee companies from external waste streams.</p>
9. Investments in companies producing pesticides and other agrochemical products	Share of investments in investee companies, the activities of which fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006	<p>To be better aligned with the EU Taxonomy and ESRS, the Platform proposes to use the definition of "Substances of Concern" included in Annex II of ESRS because in both, ESRS and Taxonomy, one of the targets is to reduce the use of this kind of substances. Investments in companies producing or putting in the market Substances of Concern (as defined in Annex II of ESRS).</p> <p>Point c) of this definition should be aligned with the Generic DNSH for PPC (appendix C of Climate DA), and only minor wording adjustment in points a) and b) would be necessary. A critical reflection on whether only "producing" should be considered or also "using" as done in Taxonomy.</p> <p>Finally, the Platform also advises that the PAI name should be revised as Investments in companies producing Substances of Concern.</p>
11. Investments in companies without sustainable land/agriculture practices or policies	Share of investments in investee companies without sustainable land/agriculture practices or policies	<p>The current formula doesn't account for a company's activities but rather suggests reporting this indicator for all investments. If the underlying investment universe doesn't include companies active in agricultural/land activities, the indicator will show 100% of companies without sustainable land/agriculture practices or policies.</p> <p>The Platform further recommends the inclusion of forestry and other land uses in the PAI.</p>
12. Investments in companies without sustainable oceans/seas practices or policies	Share of investments in investee companies, the activities of which involve oceans, seas, coasts or inland water activities without sustainable oceans/seas practices or policies	The Platform recommends that a more rigorous definition should be developed (analogous to PAI number 14 on terrestrial ecosystems) to include impacts e.g. on species, habitats, and water quality.
13. Non-recycled waste ratio	Tonnes of non-recycled waste generated by investee companies per million EUR invested	The Platform recommends including non-recycled waste in the non-recyclable fraction of sold products.

15. Deforestation	Share of investments in companies without a policy to address deforestation	The Platform proposes that the "Share of investments in companies without a policy to address deforestation" PAI is defined as share of investments in companies without a policy to address deforestation. The Platform requests that companies who publicly declare that they themselves or their supply chain are not having an impact on deforestation would also count as meeting this PAI.
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Social Indicators

11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with or with grievance/ complaints handling mechanisms to address violations of the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles, including the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and the International Bill of Human Rights	The indicator still mixes "and" / "or" in the name and description
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12. Gender pay gap between female and male employees	Average gender pay gap between female and male employees of investee companies	PAI number 12 was previously defined as "Average unadjusted gender-pay gap of investee companies", which is now changed to "Average gender pay gap between female and male employees of investee companies". It would be beneficial to keep the "unadjusted" specification in to ensure comparability (i.e. for the ESRS equivalent).
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13. Management and supervisory board gender diversity	Average ratio of female to male management and supervisory board members in investee companies, expressed as a percentage of all board members	There seems to be a misalignment between the formula provided to calculate the indicator and its description. The calculation provided in Annex I is based on the number of male board members as of the total board members, in contrast with the description "Average ratio of female to male management and supervisory board members in investee companies, expressed as a percentage of all board members."
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15. Exposure to controversial weapon	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	The definition of ‘controversial weapons’ should specify which exact activities are to be included in the calculation. The definition provides a list which does not include all weapons usually considered as controversial. It should specify whether this list is exemplary or exhaustive.
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Additional Social Indicators

8. Excessive CEO pay ratio	Ratio within investee companies of the annual total compensation for the highest compensated individual to the median annual total compensation for all employees (excluding the highest-compensated individual)	The Platform proposes that total annual compensation shall be defined as fixed part and variable annual compensation, including any bonus granted for a given calendar year, pension contributions and additional allowances as well as related equivalent based on Long-Term Incentives Pay remuneration policy.
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Currently the formulae for several indicators (emissions to water, hazardous/radioactive waste, emissions of air pollutants, emissions of ozone depleting substances, non-recycled waste (ratio) indicators) are expressed as a company's impact in relative terms (i.e., tonnes of emissions to water / EVIC), instead of absolute terms (i.e., tonnes of emissions to water). In several cases, this is inconsistent with the name of the indicators.

Additionally, the formulae for several indicators (emissions to water, emissions of air pollutants, emissions of ozone depleting substances) are defined on the basis of the total mass of pollutants released instead than in terms of potential environmental impact. The list of characterisation factors for these indicators should be published and reviewed periodically (e.g., list of characterization factors to calculate Ozone Depletion Potential: [Annex C: Controlled substances | Ozone Secretariat \(unep.org\)](#)) to allow the calculation of the potential impact.

For GHG emissions the current PAI list includes both absolute indicators (scope 1,2,3) and indicators adjusted for company size (relative to EVIC = called carbon footprint, relative to revenue = called carbon intensity). The Platform is bringing the ESAs’ attention to those potential inconsistencies.

- PAI number 1: The “financed” or “owned” numbers look worse if the FMP manages more assets even if it is invested in the same underlying companies. Consequently, on a fund level it could create an incentive system whereby smaller funds seem more ESG attractive than larger funds when they may be invested in worse performing companies. The same argument applies at financial-product level.

- PAI number 1, 2 and 3: Scope 3 carbon data is rarely disclosed, estimates still vary significantly across vendors and disclosed data is not consistent. These factors impact significance and comparability of reporting figures.
- PAI number 8 and 9: There is very low disclosure (and high estimation error for entities that do not report) which could distort reporting figures. Vendors also capture different emission types and there is some uncertainty about which should be considered as per the regulation. Companies also inconsistently report pollutants.

The Commission Delegated Regulation 2022/1288 Art. 7 (2)) states that financial market participants shall disclose "[w]here information relating to any of the indicators used is not readily available, ... details of the best efforts used to obtain the information either directly from investee companies, or by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions." This allows completing data gaps including in house or external estimations, engagements with portfolio companies or even the imputation of values arrived at via "reasonable assumptions". However, as per Commission Delegated Regulation 2019/2088 Recital 17, financial market participants have to ensure adherence to the precautionary principle, especially in relation to information on 'do no significant harm' aspects.

By noting the difficulties that FMPs encounter when calculating PAI numbers 1, 2, 3, 8 and 9 as described above, the Platform wants to stress the need for these hurdles to be acknowledged and considered when supervising, comparing or assessing financial products or FMPs' performance with respect to PAI indicators. The quality of the indicators will improve over time and by no means is their relevance being questioned.

The Platform notes that there is no common understanding in the market of (i) what violations entail and (ii) how far back information available for an investee company or country are of relevance – this is relevant for PAI number 10 and PAI number 20. While strictly speaking the PAI disclosures only concern a one-year reference period, it is unclear whether FMPs can simply ignore information such as controversies that date back a longer period.

Annex IV- Members, Observers and Rapporteurs of the Platform on Sustainable Finance

a. Chair

Organisation	Name
Comisión Nacional del Mercado de Valores (CNMV)	Helena Viñes Fiestas

a. Rapporteur(s)

Organisation / Subgroup	Name
UNEP FI / SG 1	Elodie Feller
AXA / SG 1	Clémence Humeau
EPA Network / TWG	Astrid Matthey
Orgalim / TWG	Andreas Brunsgaard
Skandinaviska Enskilda Banken (SEB) AB (publ) / SG 3	Karl-Oskar Olming
European Investment Bank (EIB) / SG 3	Bertrand Magné

b. Members

Organisation	Name
Agent Green	Theodor F. Cojoianu
Allianz SE	Jörg Ladwein
Association 2 Degrees Investing Initiative	Hélène Lanier
AXA	Clémence Humeau
BusinessEurope	Erik Berggren
CDP Worldwide (Europe) gemeinnützige GmbH	Hélène Procoudine-Gorsky
Climate Bonds Initiative (CBI)	Sean Kidney
EPIA SolarPower Europe	Nicole Della Vedova
Eurochambres	Jan Greitens
Eurometaux	Mukund Bhagwat

Organisation	Name
European Alliance for Sustainable Finance in waste management and recycling	Daniel Houska
European Banking Federation aisbl	Hans Biemans
International Sustainable Finance Centre z.	Linda Zeilina
Natural Resources Institute Finland	Esa-Jussi Viitala
Orgalim	Andreas Brunsgaard
Skandinaviska Enskilda Banken (SEB) AB (publ)	Karl-Oskar Olming
SMEunited	Gerhard Huemer
Sustainalytics	Hans-Ulrich Beck
Water Europe	Gonzalo Delacámara
Type A	Agnieszka Slomka-Golebiowska
Type A	Andreas Hoepner
Type A	Bernabé Alonso Farinas
Type A	Camille Leca
Type A	Linda Romanovska
Type A	Ottorino Morresi
Type B	Marie Baumgarts

c. Directly appointed members

Organisation	Name
European Banking Authority (EBA)	Ali Erbilgic
European Environment Agency (EEA)	Beate Hollweg
European Investment Bank (EIB)	Eila Kreivi
European Investment Fund (EIF)	Peter Coveliers
European Insurance and Occupational Pensions Authority (EIOPA)	Pamela Schuermans
European Securities and Markets Authority (ESMA)	Angeliki Vogiatzi
EU Agency for Fundamental Rights (FRA)	Adrianna Bochenek

d. Observers

Organisation	Name
European Bank for Reconstruction and Development (EBRD)	Maya Hennerkes
European Central Bank (ECB)	Matthias Rau-Goehring
European Financial Reporting Advisory Group (EFRAG)	Kerstin Lopatta
European Network of the Heads of Environment Protection Agencies (EPA Network)	Natalie Glas
European Stability Mechanism (ESM)	Carlos Martins
Organisation for Economic Co-operation and Development (OECD)	Raphael Jachnik
Principles for Responsible Investment (PRI)	Elise Attal
United Nations Environment Programme Finance Initiative (UNEP FI)	Elodie Feller
Bloomberg L.P.	Nadia Humphreys
Business and Science Poland	Dawid Bastiat-Jarosz
Cassa Depositi e Prestiti SpA	Gaia Ghirardi
CEFIC	Alison O’Riordan
European Trade Union Confederation (ETUC)	Marco Cilento
SGI Europe	Filippo Brandolini

Other contributors to this report

	Name
Principles for Responsible Investment (PRI)	Ben Leblique
European Bank for Reconstruction and Development (EBRD)	Robert Adamczyk
United Nations Environment Programme Finance Initiative (UNEP FI)	Chiara Magrelli
European Investment Bank (EIB)	Bartholomew Judd
Allianz SE	Julia Backmann