

To: Corporate Reporting - Investments & Sustainable Finance WG
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Subject: EFRAG ESRS Q&A Platform Compilation of Explanations December 2024

Summary

Despite its previous announcement of a 'quiet period' until Spring 2025, on 19 December 2024 the European Financial Reporting Advisory Group (EFRAG) released Explanations for five environmental questions through its ESRS Q&A Platform, bringing the overall number of questions answered to 162: [here](#).

The [December 2024 Explanations](#) address questions related to climate change mitigation and adaptation targets, biodiversity and ecosystems. In particular, it is clarified that the requirement for setting targets on absolute GHG emissions is not necessary in the first 3 years of reporting (transitional provision). In detail:

ESRS reference	Question ID	Explanation
ESRS E1-4 Targets related to climate change mitigation and adaptation	ID 1033 - In the context of ESRS E1 paragraph 34 (a) and in a situation where a credit institution has set GHG emissions intensity targets, are credit institutions expected to provide associated absolute values in relation to their emissions intensity targets even if such metric is not used to steer the portfolio and due to the fact that it can be neither predictive or of confirmatory value due to the business model of the credit institutions?	Scope 3, category 15 (Investments) targets for the lending portfolio are considered value chain information (see also IG 2 Value Chain, FAQ 2). When reporting on GHG emission reduction targets, an undertaking may refer to ESRS 1 paragraph 133 (a) of Chapter 10.2 Transitional provision related to Chapter 5 Value chain, which allows an undertaking to adopt transitional measures for value chain information in the first three annual sustainability statements. This provision is applicable when the undertaking has adopted intensity targets for its Scope 3, category 15 (Investments) emissions, but the corresponding associated absolute values for the target year and interim target years (ESRS E1-1 paragraph AR 23) are not available (see ESRS 1 paragraph 132).
	ID 1076 - Would it be possible for a financial institution to disclose GHG emissions targets set on Scope 3 category 15 (i.e. 'financed emissions') without reporting the corresponding targets in absolute emissions?'	When only targets in intensity value are available, in the first three years of reporting, a financial institution may limit the information on value chain targets to the information available in-house, which might include data already collected for Pillar 3 reporting.
	ID 1122 - Regarding absolute values for financial institutions, why not show exposure and exposure percentages instead of GHG emissions?'	EFRAG may work on specific sector provisions in the future to cover this issue.
ESRS E4 Disclosure Requirement	ID 1116 - Is the ESRS 1 Disclosure Requirement SBM-3 metric to be reported for ESRS E4	If the topic 'biodiversity and ecosystems' has been identified as material for the undertaking's upstream (or downstream) value chain only, the undertaking:

<p>related to ESRS 2 SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model</p>	<p>if biodiversity was assessed as not material for the company’s own operations but material only for the upstream value chain? The SBM-3 metric specifically refers to the company’s own sites, i.e. own operations. Additionally, no sites were found located in or near biodiversity-sensitive areas that have negative impacts on these areas.</p>	<p>(a) would not disclose the information required by ESRS E4 paragraph 16 (a), which refers to own operations only;</p> <p>(b) would be required to disclose information required by ESRS E4 paragraph 16 (b) in connection with its upstream (or downstream) value chain, as ESRS E4 paragraph 16 (b) applies not only to impacts connected to the undertaking’s sites in its own operations; and</p> <p>(c) in relation to ESRS E4 paragraph 16 (c), the undertaking would be required to disclose whether it has operations that affect threatened species (this refers to own operations and not to operations in the upstream or downstream value chain). If ESRS E4 is material and does not have own operations that affect threatened species, it shall state so.</p> <p>Finally, where appropriate, following ESRS 1 paragraph 11 the undertaking shall include information, including metrics (see IG 2 Value chain paragraph 79) related to its upstream and downstream value chain, on an entity-specific basis.</p>
<p>ESRS E4-5 – Impact metrics related to biodiversity and ecosystems change</p>	<p>ID 1058 - ESRS E4-5 paragraph 37 mentions that ‘For datapoints specified in paragraphs 38 to 41, the undertaking shall consider its own operations’. Does that mean that ESRS E4 paragraph 33 where it says ‘The undertaking shall report metrics related to its material impacts on biodiversity and ecosystems’ also refers to the undertaking’s own operations only?</p>	<p>IG 2 Value chain specifies in its ‘VC coverage map of ESRS Set 1’ on page 44 that E4-5 ‘only reflects own operations, as no coverage of the value chain is required.’ For clarity, it is to be noted that:</p> <p>(a) ESRS E4 paragraph 37 specifies, in relation to the Disclosure Requirements in paragraphs 38 to 41, that undertakings are to consider only own operations;</p> <p>(b) ESRS E4 paragraph 35 specifies metrics focusing on sites owned, leased or managed by the undertaking; and</p> <p>(c) ESRS E4 paragraph 36 is a voluntary disclosure on land use based on a life cycle assessment, which inherently considers the undertaking’s value chain, as it involves assessing the impact of products or services on land use across all stages, from raw material sourcing to production and disposal.</p> <p>In addition, if the undertaking identified material impacts, risks or opportunities in the value chain, it shall determine whether and what additional entity-specific disclosures it needs to disclose in line with ESRS 1 paragraphs 11 and 30 (b). See in particular ESRS 1 paragraph AR 3 on how to determine the usefulness of metrics for inclusion in entity-specific disclosures. It is to be noted that transitional provisions apply to the disclosure of value chain information (see ESRS 1 paragraph 133 (b)).</p>

Next steps

The December 2024 Explanations do not address question ID 803 – Own operations versus operational control.

The December 2024 Explanations will later be added to the next major update to the Compilation of Explanations, expected to be released by EFRAG in Spring 2025.