

EXPOSURE DRAFT

ESRS E5

Resource use and circular economy

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PTF-ESRS

Project Task Force on European sustainability reporting standards

 **EFRAG**

[DISCLAIMER]

This Exposure Draft has to be read in conjunction with the cover note for ESRS public consultation. It has been prepared under the sole responsibility of the EFRAG PTF-ESRS and is submitted to public consultation by EFRAG SRB to inform the upcoming standard-setting steps. It therefore does not reflect the EFRAG SRB's position at this stage, nor the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA), nor the position of organisations with which the EFRAG PTF-ESRS has cooperated. The final version of the [draft] Standard will be produced by the EFRAG SRB starting from this Exposure Draft, taking into consideration the outcome of the public consultation and the requirements of the final CSRD.

[Draft] ESRS E5 Resource use and circular economy is set out in paragraphs 1–55 and Appendices A: Defined terms and B: Application Guidance. All the paragraphs, including those in Appendices A and B, have equal authority. Each Disclosure Requirement objective is stated in a bold paragraph, followed by a paragraph that illustrates the principle to be followed in the preparation of the respective disclosures. The [draft] Standard also uses terms defined in other [draft] ESRS and should be read in the context of its objective.

Table of contents

Objective	4
Interactions with other ESRS	5
Disclosure Requirements	5
General, Strategy, Governance and Materiality assessment	5
Disclosure Requirement E5-1 – Policies implemented to manage resource use and circular economy	6
Disclosure Requirement E5-2 – Measurable targets for resource use and circular economy	6
Disclosure Requirement E5-3 – Resource use and circular economy action plans	7
Performance measurement	8
Disclosure Requirement E5-4 – Resource inflows	8
Disclosure Requirement E5-5 – Resource outflows	8
Disclosure Requirement E5-6 – Waste	8
Disclosure Requirement E5-7 – Resource use optimisation	9
Disclosure Requirement E5-8 – Circularity support	9
Taxonomy Regulation for the transition to a circular economy (including enabling activities)	10
Disclosure Requirement E5-9 – Financial effects from resource use and circular economy-related impacts, risks and opportunities	10
Appendix A: Defined terms	11
Appendix B: Application Guidance	13
General, Strategy, Governance and Materiality assessment	13
Resource use and circular economy-related specific application guidance on ESRS 2 Disclosure Requirements SBM 3 and SBM 4 on the integration of resource use and circular economy in the business model	13
Resource use and circular economy-related specific application guidance on ESRS 2 Disclosure Requirements IRO on impacts, risks and opportunities	14
Policies, targets, action plans and resources	15
Disclosure Requirement E5-2 - Measurable targets for resource use and circular economy	15
Disclosure Requirement E5-3 – Resource use and circular economy action plans	15
Performance measurement	16
Disclosure Requirement E5-4 - Resource inflows	16
Disclosure Requirement E5-5 - Resource outflows	17
Disclosure Requirement E5-6 - Waste	18
Disclosure Requirement E5-7 - Resource use optimisation	18
Disclosure Requirement E5-8 - Circularity support	19

Objective

1. The objective of this [draft] Standard is to specify disclosure requirements which will enable users of the sustainability statements to understand:
 - (a) how the undertaking affects resource use, including the depletion of non-renewable resources and the regeneration of renewable resources (referred to in this [draft] standard as “resource use and circular economy”) in terms of positive and negative material actual or potential adverse impacts;
 - (b) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts arising from resource use and circular economy, including its measures to decouple its growth from extraction of natural resources;
 - (c) the plans and capacity of the undertaking to adapt its business model and operations in line with circular economy principles including the elimination of waste, the circulation of products and materials at their highest value, and the nature’s regeneration;
 - (d) the nature, type and extent of the undertaking’s material risks and opportunities related to the undertaking’s impacts and dependencies, including potential negative externalities, arising from resource use and circular economy, and how the undertaking manages them;
 - (e) the effects of risks and opportunities, related to the undertaking’s impacts and dependencies on resource use and circular economy, on the undertaking’s development, performance and position over the short, medium and long term and therefore on its ability to create enterprise value.
2. This [draft] Standard derives from the [draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify information to disclose about “resource use and circular economy”.
3. This Standard sets out disclosure requirements related to “resource use” and “circular economy”.
4. Circular economy is a restorative system in which waste and pollution are eliminated and resource use is minimised through systemic design, maintaining and improving the value of products and components and achieving a circular flow of resources, while regenerating natural ecosystems.
5. The goal is to retain the value of the resources, products and materials by creating a system with innovative business models that allow for renewability, long life optimal use or re-use, refurbishment, remanufacturing, recycling and biodegradation.
6. A circular economy is based on three principles, driven by design: eliminate waste and pollution, keep products and materials in use at their highest value and regenerate ecosystems. It is underpinned by a transition to renewable energy.
7. Decoupling economic activity from extraction of natural resources can take place through the implementation of circular strategies to prevent natural resources extraction and intensify circular material use.
8. This [draft] Standard also builds on existing EU legislative frameworks and policies which are referred to in this Standard: the EU Green Deal, Regulation (EU) 2019/2088 (SFDR), Regulation (EU) 2020/852 (the EU Taxonomy), EU Circular Economy Action Plan¹ and the EU industrial strategy.
9. To evaluate the transition from linear to circular ecosystem, this [draft] Standard relies on the identification of resources, materials and products physical flows used by the undertaking and

¹ https://ec.europa.eu/environment/strategy/circular-economy-action-plan_en

the share of circularity achieved through ESRS E5 Disclosure Requirement 4 Resource inflows, Disclosure Requirement 5 Resource outflows and Disclosure Requirement 6 Waste.

10. This [draft] Standard also requires the description of the actions taken to maximise the use and to retain the value of resources in particular through the changes of business models or the creation of new innovative ones that allow the undertaking to decouple financial performance and resources consumption. ESRS E5 Disclosure Requirement 7 Resource use optimisation relates to the actions taken directly by the undertaking and ESRS E5 Disclosure Requirement 8 Circularity support relates to the actions along the upstream and downstream value chain.

Interactions with other ESRS

11. Pollution matters are addressed in ESRS E2, climate change mitigation and adaptation matters are addressed in ESRS E1, biodiversity and ecosystems matters are addressed in ESRS E4 and water and marine resources matters are addressed in ESRS E3. The circular economy is a system that tends towards a sustainable production and consumption. In doing so, the system brings multiple environmental benefits, in particular, the reduction of energy consumption and emissions into the air (carbon emission or other pollution), the limitation of water withdrawals and discharges and the regeneration of the nature limiting the impact on biodiversity.
12. The contents of this [draft] Standard on strategy and business model, governance and organisation and Impacts, risks and opportunities, as well as policies, targets, action plans and resources shall be read in conjunction respectively with cross-cutting standards ESRS 1 General principles and ESRS 2 General, strategy, governance and materiality assessment. This Standard covers sector-agnostic disclosure requirements. Sector-specific disclosure requirements are developed separately and in accordance with the classification following ESRS SEC 1 Sector classification².

Disclosure Requirements

General, Strategy, Governance and Materiality assessment

13. The provisions of this [draft] Standard shall be read in conjunction with and reported alongside the disclosure requirements of ESRS 2.
14. This [draft] Standard provides specific resource use and circular economy-related application guidance in Appendix B to describe and illustrate what are the specificities related to resource use and circular economy that should be considered by the undertaking when disclosing information under ESRS 2 with regards to:
 - (a) the integration of resource use and circular economy in the business model referring to ESRS 2 Disclosure Requirements SBM 3 and SBM 4; and
 - (b) the process to identify material resource use and circular economy-related impacts, risks and opportunities and the outcome of this process, referring to ESRS 2 Disclosure Requirements IRO 1 and IRO 2.
15. This topical Standard does not include additional resource use and circular economy-specific disclosure requirements.

Policies, targets, action plans and resources

16. The disclosure requirements developed hereafter refer to ESRS 1 Disclosure Principles 1, 2 and 3.

² ESRS SEC 1 to be issued at a later stage.

Disclosure Requirement E5-1 – Policies implemented to manage resource use and circular economy

17. **The undertaking shall disclose separately its policies (i) to decouple economic activity from extraction of non-renewable resources and (ii) for regeneration of renewable resources and ecosystems.**
18. The principle to be followed under this Disclosure Requirement is to provide an understanding of the undertaking's ability to transition away from extraction of virgin non-renewable resources and to implement practices that secure and contribute to the regeneration of the stock of renewable resources and the ecosystems they are part of.
19. The description of the resource use and circular economy policies shall follow the principles defined in ESRS 1 Disclosure principle 1 On policies adopted to manage material sustainability matters. If the undertaking does not disclose the information required by paragraph 17, because it does not believe it has material impacts, risks or opportunities in relation to resource use and circular economy or it has not adopted a policy and/or objectives as outlined in ESRS 1, it shall disclose this to be the case, shall provide reasons for not having adopted a policy or objectives, and may report a timeframe in which it aims to have such policy or objectives in place.
20. The disclosure required by paragraph 17 shall include a description of how the policy commitments related to resource use and circular economy are implemented within the undertaking's own operations and the upstream and downstream value chain.

Disclosure Requirement E5-2 – Measurable targets for resource use and circular economy

21. **The undertaking shall disclose the resource use and circular economy-related targets it has adopted.**
22. The principle to be followed under this Disclosure Requirement is to provide an understanding of the capacity of the undertaking to meet the policy's objectives of resource use and circular economy.
23. The description of the targets shall follow the principles defined in ESRS 1 Disclosure principle 2 On targets, progress and tracking effectiveness.
24. The description of the targets required by paragraph 21 shall include information on:
 - (a) the measurable outcome-oriented target set to meet the resource use and circular economy-related policy's objectives related to the management of its material impacts, risks and opportunities;
 - (b) a description of how material impacts are linked with targets and if they are not, a justification as to why a material impact is not covered by a target; and
 - (c) as applicable, the geographical scope of the target: a description of the geographies covered by the target and how these geographies were selected and, where appropriate an explanation of why geographies identified as relevant were not included.
25. The resource use and circular economy targets above-mentioned shall be classified in the following categories:
 - (a) targets to eliminate waste (including in production, use phase and at end of functional life);
 - (b) targets for circular material use rate;
 - (c) targets to eliminate the use of virgin non-renewable raw material; and

- (d) targets for regeneration of renewable resources and ecosystems.

Disclosure Requirement E5-3 – Resource use and circular economy action plans

26. **The undertaking shall disclose its resource use and circular economy-related action plans and the resources allocated to their implementation.**
27. The principle to be followed under this Disclosure Requirement is to provide an understanding of the types of process, initiative or engagement taken to increase the share of circularity in the flows and to optimise the use of resources supporting the credibility of the undertaking's strategy to develop circular business models fostering the transition to a more circular economy.
28. The description of the resource use and circular economy-related action plans and resources allocated shall follow the principles defined in ESRS 1 Disclosure principle 3 On actions, action plans and resources in relation to policies and targets.
29. The disclosure required by paragraph 26 shall include for each key action plan or action a description of:
- (a) the geographical scope of the actions or action plan, including explanation of any limitations as to geographical boundaries or activities;
 - (b) whether the action or action plan is intended to be a one-time initiative or a systematic practice; and
 - (c) how stakeholders are involved in the action plan or action, or/and a list of stakeholders impacted negatively or positively by the action plan or action and how they are impacted.
30. Considering that resource sourcing and circular economy may require collective actions, or action plans, involving other stakeholders, the undertaking shall describe if the action or action plan is individual or collective, and for a collective, the undertaking shall explain its role and whether the success of it depends on the undertaking's support.

Performance measurement

Disclosure Requirement E5-4 – Resource inflows

31. **The undertaking shall provide information on its resource inflows.**
32. The principle to be followed under this Disclosure Requirement is to provide an understanding of the resource use in the course of the undertaking's own operations, considering separately renewable and non-renewable resources and including transparency on virgin versus non virgin materials and on sustainable versus regenerative source.
33. The disclosure required by paragraph 31 shall include:
- (a) the overall total weight of materials used during the reporting period;
 - (b) the weight in both absolute value (tons) and percentage of renewable input materials used to manufacture the undertaking's products and services (including packaging); and
 - (c) the weight in both absolute value (tons) and percentage, of reused or recycled input materials used to package the undertaking's products.

Disclosure Requirement E5-5 – Resource outflows

34. **The undertaking shall provide information on its resource outflows.**
35. The principle to be followed under this Disclosure Requirement is to provide an understanding of how the undertaking is contributing to circular economy by increasing the durability, reparability, upgradability, reusability or recyclability of the products and materials.
36. The resource outflows represent the circularity of materials or products that are intentionally designed to contribute to circular economy.
37. The disclosure required by paragraph 34 shall include the amount in both absolute and percentage terms of material and products that are designed along circular principles: durability, reusability, reparability, disassembly, remanufacturing/refurbishment, recycling or other optimisation of the use of the resource.
38. Information on the products and materials that are recirculated in practice may be provided.

Disclosure Requirement E5-6 – Waste

39. **The undertaking shall provide information on its wastes.**
40. The principle to be followed under this Disclosure Requirement is to provide an understanding of the undertaking's waste management strategy and of the extent to which the undertaking knows how its waste is managed in its own activities.
41. The disclosure required by paragraph 39 shall include and disclose separately the total tons of waste:
- (a) the total amount of waste generated;
 - (b) for each of hazardous and non-hazardous waste, the amount by weight diverted from disposal by recovery operation type and the total amount summing all three types. The recovery operation types to be reported on are:
 - i. preparation for reuse;

- ii. recycling; and
 - iii. other recovery operations;
- (c) for each of hazardous and non-hazardous waste, the amount by weight averted to disposal by recovery operation type and the total amount summing all three types. The recovery operation types to be reported are:
- iv. incineration;
 - v. landfilling; and
 - vi. other disposal operations; and
- (d) the total amount and percentage of non-recycled waste.³
42. The undertaking shall also disclose the total amount of hazardous waste and radioactive waste generated by the undertaking, where radioactive waste is defined in Article 3(7) of Council Directive 2011/70/Euratom.⁴

Disclosure Requirement E5-7 – Resource use optimisation

43. **The undertaking shall provide information on its strategy to optimise resource use in creating circular business models.**
44. The principle to be followed under this Disclosure Requirement is to provide an understanding of the intensity of materials and products used by the undertaking and its capability to keep a resource at its highest value.
45. Better design to improve longevity, reparability, facilitate the increase of recycling content or new ways of consumption such as pay-per-use and sharing are considered as ways to retain the value of the resource.
46. The disclosure required by paragraph 43 shall include the share of net turnover from products and services that leverage the transition to a circular economy through circular business models such as pay-per-use, sharing or repairing services.

Disclosure Requirement E5-8 – Circularity support

47. **The undertaking shall provide information on its ability to create partnerships to accelerate the transition from linear to circular economy.**
48. The principle to be followed under this Disclosure Requirement is to provide an understanding of the services and products that contribute to create circular systems initiatives outside its own activities in the value chain.

³ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional principal adverse impact as set out by indicator #13 in Table 2 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments.

⁴ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory principal adverse impact as set out by indicator #9 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments.

49. The disclosure required by paragraph 47 shall include a description of:

- (a) actions, including circularity measures, taken to prevent waste generation in the undertaking's upstream and downstream value chain and to manage significant impacts arising from waste generated;
- (b) the extent to which the undertaking engages with customers on advancing circular economy topics; and
- (c) the extent to which the undertaking engages with suppliers on advancing circular economy topics.

Taxonomy Regulation for the transition to a circular economy (including enabling activities)

50. The undertaking shall disclose information required by Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation) in conjunction with the Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 and in conjunction with upcoming technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to transitioning to circular economy.

51. Article 8(2) of Regulation (EU) 2020/852 requires undertakings subject to the [Corporate Sustainability Reporting Directive] to disclose information on the proportion of the net turnover, capital expenditure ('CapEx') and operating expenditure ('OpEx') or on their green asset ratio associated with economic activities that qualify as environmentally sustainable.

52. The information to be disclosed under the upcoming circular economy-related provisions Regulation (EU) 2020/852 shall be complementary to the information provided under the provisions of this [draft] Standard as providing an understanding of the undertaking's substantial contribution in favour of the transition to a circular economy.

Disclosure Requirement E5-9 - Financial effects from resource use and circular economy-related impacts, risks and opportunities

53. The undertaking shall disclose its financial effects of material risks and opportunities arising from resource use and circular economy-related impacts and dependencies.

54. The principle to be followed under this Disclosure Requirement is to provide an understanding of the effects of material risks and opportunities, related to the undertaking's resource use and circular economy-related impacts and dependencies, on the undertaking's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value, considering that those potential future financial effects may not meet at the reporting date the recognition criteria set for financial statements. Such information is complementary to the information requested under the Taxonomy Regulation.

55. The undertaking may include an assessment of the market size of related products and services at risk over the short-, medium-, and long-term, explaining how these are defined, how financial amounts are estimated and which critical assumptions are made.

Appendix A: Defined terms

This appendix is an integral part of the [draft] ESRS E5.

Associated process materials	Materials that are needed for the manufacturing process but are not part of the final product, such as lubricants for manufacturing machinery.
By-product	An inevitable result of certain types of material processing and agriculture. In a circular economy all by-products can be feedstock for another production process. (Circulytics Definitions List)
Circular economy	Economic system that uses a systemic approach to maintain a circular flow of resources, by regenerating, retaining or adding to their value, while contributing to sustainable development. (ISO)
Circular economy principles	The circular economy is based on three principles, driven by design: (i) eliminate waste and pollution; (ii) circulate products and materials at their highest value; and (iii) regenerate nature. (Ellen MacArthur Foundation)
Circularity	A state of a specified system, organisation, product or process where resource flows and values are maintained whilst benefiting sustainable development. (ISO)
Circularity enabler	The services, products or Business models that enable circular systems to be created including cross value chain initiatives.
Durability	The ability of a product, component or material to remain functional and relevant when used as intended.
Hazardous/ non-hazardous waste	Hazardous (non hazardous) waste possesses (does not possess) any of the characteristics contained in Annex III of the Basel Convention, or that is (that is not) considered to be hazardous by national legislation.
Incineration with (without) energy recovery	Incineration is the controlled burning of waste at high temperature. It is with energy recovery when the energy created in the combustion process is harnessed for re-use, for example for power generation. It is without energy recovery when the heat generated by combustion is dissipated in the environment.
Landfilling	Final depositing of solid waste at, below, or above ground level at engineered disposal sites. (GRI 306: Waste 2020, United Nations (UN), Glossary of Environment Statistics, Studies in Methods, Series F, No. 67, 1997)
Linear economy	An economy in which finite resources are extracted to make products that are used - generally not to their full potential - and then thrown away ('take-make-waste'), leading to waste, pollution, and the degradation of natural systems.
Longevity	Designed for maintenance and durability in such a way that encourages longer use than the industry standard in practice and at scale and in such a way that does not compromise circular treatment at the end of functional life. (Circulytics Definition List)

Natural Resource	Natural assets (raw materials) occurring in nature that can be used for economic production or consumption. (OECD Glossary of Statistical Terms)
Non-renewable material	Resources that are not able to be renewed or replenished on timescales relevant to the economy, i.e., not geological timescales, such as minerals, metals, oil, gas or coal. (Source: GRI 301 and BS 8001 Circular Economy and EMF)
Packaging	Product to be used for the containment, protection, handling, delivery, storage, transport and presentation of goods, from raw materials to processed goods, from the producer to the user or consumer, including processor, assembler or other intermediary. (ISO 21067-1:2016, Packaging — Vocabulary — Part 1: General terms)
Primary products	Grown, harvested or extracted raw materials. (inspired by GRI 306: Waste 2020)
Recovery	Any operation wherein products, components of products, or materials that have become waste are prepared to fulfil a purpose in place of new products, components, or materials that would otherwise have been used for that purpose. (GRI 306: Waste 2020)
Recyclable materials	Materials which may be collected, separated or processed and returned to the economic mainstream in the form of secondary raw materials or products.
Recycling	Reduce a product all the way back to its basic materials, reprocessing and using them to make new products, components or materials. (Circulytics Definitions List)
Renewable materials	Material that is derived from plentiful resources that are quickly replenished by ecological cycles or agricultural processes, so that the services provided by these and other linked resources are not endangered and remain available for the next generation. (GRI 301: Materials 2016)
Resource use optimisation	To design, produce and distribute materials and products with the objective to keep them in use at their highest value. Eco-design and design for longevity, repair, reuse, repurposing, disassembly, remanufacturing are examples of tools to prevent from a quick and limited use of materials and products. Innovative business models could also contribute to better use existing products and materials (sharing, pay-per-use, ...). Regenerative production methods could also be applied.
Resource inflows	Resource that enters the organisation's infrastructure. (inspired by Circulytics Definitions List)
Resource outflows	Resource that leaves the organisation's infrastructure. (inspired by Circulytics Definitions List)
Reuse	The repeated use of a product or component for its original intended purpose without significant modification, but potentially involving cleaning or small adjustments so it is ready for the next use. (Circulytics Definitions List)
Waste	Any substance or object which the holder discards or intends or is required to discard. (Article 3(1) of Directive 2008/98/EC of the European Parliament and of the Council)

Appendix B: Application Guidance

This appendix is an integral part of the proposed [draft] ESRS E5 Resource use and circular economy. It describes the application of the requirements set for in paragraphs 1–55 and has the same authority as the other parts of the [draft] ESRS Standard.

General, Strategy, Governance and Materiality assessment

Resource use and circular economy-related specific application guidance on ESRS 2 Disclosure Requirements SBM 3 and SBM 4 on the integration of resource use and circular economy in the business model

AG 1. The description of the integration of material impacts, risks and opportunities related to resource use and circular economy in the business model shall include:

- (a) the significant impacts, risks and opportunities identified under the materiality assessment throughout the sub-subtopics of resource use and circular economy;
- (b) a description of the alignment of the business model with the key principles of circular economy:
 - i. the elimination of waste in the value chain;
 - ii. the circularity of products and materials keeping them at their highest value; and
 - iii. the regeneration of nature; and
- (c) a description of the decoupling of the economic activity from extraction of natural resources.

AG 2. The information required under paragraph AG 1 shall include:

- (a) by reference to the resource use and circular economy targets and action plans, a description of the identified levers and the key actions planned to move from a linear to a circular business model;
- (b) an explanation of how the plan is embedded in and aligned with the overall business strategy; and
- (c) an explanation of the progress made in retaining the resource, the product and material at their highest value.

AG 3. With regards to impacts, the undertaking shall disclose how the current and future business model and strategy (i) cause and drive pressure on resources that reduce stocks and flows of resources and (ii) provide benefits to society and more specifically, a description of:

- (a) the implementation of a strategy to retain the value of the resources and to shift from linear to circular business practices, within own operations and across value chain;
- (b) the potential risks of negative externalities; and
- (c) how the undertaking will implement the requirements of the EU Circular Economy Action Plan.

AG 4. With regards to risks and opportunities, the undertaking shall disclose:

- (a) a list and prioritisation of the natural resources used by the undertaking based on the evaluation of the remaining resources and the negative externalities resulting from the use of resources;

- (b) a description of:
 - i. the capability of the undertaking to safeguard future stocks and flows of resources and the related benefits to society;
 - ii. how activities are decoupled from extraction and natural resources by implementing a value strategy of the resources use and intensifying circular material use; and
 - iii. the resulting short-, medium- and long-term strategic implications for its business model and strategy;
- (c) a description in its own operations and along its value chain of:
 - i. the extraction and use of non-renewable resources;
 - ii. the depletion of stock and use of renewable resources; and
 - iii. the stages of the value chain where resource use, risks and negative impacts are concentrated; and
- (d) a description of how the risks and opportunities both related to the transition to a circular economy and to the risks of staying in a linear economy serve as an input to the management's strategy and decision making.

Resource use and circular economy-related specific application guidance on ESRS 2 Disclosure Requirements IRO on impacts, risks and opportunities

AG 5. The description of the process to identify and assess sustainability impacts, risks and opportunities shall cover:

- (a) the five sub-subtopics of resource use and circular economy:
 - i. resource inflows as regards the circularity of material resource inflows, considering separately renewable and non-renewable resources and including transparency on virgin versus non virgin materials and on sustainable versus regenerative sources;
 - ii. resource outflows as regards the circularity of material intended outflows including the practical recirculation. Outflows in this category shall be intentional and provide an economic or other benefit;
 - iii. waste as regards the circularity of extraneous resource outflows taking into account the waste hierarchy: prevention, re-use, recycling;
 - iv. resource use optimisation as regards the intensity of materials and products use, including the creation of innovative business models and the implementation of regenerative production methods;
 - v. circular enablers as regards the services and products that enable the creation of circular systems including cross value chain initiatives;
- (b) negative, adverse and positive impacts associated with the linear or circular nature of the activities of the undertaking on its own operations and along its upstream and downstream value chain;

AG 6. When describing the process of identifying and assessing impacts, risks and opportunities related to the transition to a circular economy, the undertaking shall consider:

- (a) how business models could increase the resource use optimisation (e.g. product-as-a-service, pay-per-use, sharing, leasing); and
- (b) the conception of the products and materials (eco-design for longevity, repair, reuse...), including raw material inputs (for example recycling, by-products, virgin raw materials, renewable resources), use and end of use of products and materials.

AG 7. When describing the identification process on its own operations, the undertaking shall cover the raw material consumption, potential substitution of natural resources by recycling materials, the waste management (hazardous and non-hazardous wastes) while considering the potential adverse or beneficial other environmental impacts (climate change, water, pollution, biodiversity).

AG 8. When describing the identification process on its supply chain, the undertaking shall cover raw material inputs, practices to secure renewable resources regeneration, waste management and other potential impacts downstream on the operations.

AG 9. The undertaking shall disclose the outcome of its process to identify and assess resource use and circular economy-related impacts, risks and opportunities including:

- (a) the significant impacts and risks of staying in a linear economy;
- (b) the significant opportunities related to a circular economy; and
- (c) the significant impacts and risks of a transition to a circular economy.

Policies, targets, action plans and resources

Disclosure Requirement E5-2 - Measurable targets for resource use and circular economy

AG 10. The targets provided under the categories (a) and (c) of paragraph 24 shall be provided in absolute value.

AG 11. When providing information under paragraph 24 (b), the undertaking needs to demonstrate that the increased circular material use rate is additional based on the development of new, innovative secondary material sources and the production of circular products.

Disclosure Requirement E5-3 – Resource use and circular economy action plans

AG 12. When disclosing information required under paragraph 26, the undertaking shall disclose action plans:

- (a) based on the circular economy principles: elimination of waste, product and materials circulation at their highest value, and nature regeneration; and
- (b) subdivided into the sub-subtopics representing the five stages of circular economy: resource inflows, resource outflows, waste, resource use optimisation and circularity support.

AG 13. When describing action plans on its own operations, the undertaking shall include information on the relevant internal processes regarding:

- (a) the manufacturing and distribution adaptation;
- (b) the development of skills and training to improve internal competencies on resource use and circular economy;

- (c) innovation and R&D on manufacturing processes and product development enabling the conception of products and materials integrating eco-design principles, circularity and resources value along the value chain;
- (d) remuneration incentives; and
- (e) lobbying activities in favour of the circular economy.

AG 14. When describing action plans in its upstream and downstream value chain, the undertaking shall include information on the development of collaborations with its local ecosystem and suppliers or more generally stakeholders to increase the circularity of products and materials.

Performance measurement

Disclosure Requirement E5-4 - Resource inflows

AG 15. Resource inflows indicators refer to all materials used for production and packaging.

AG 16. The disclosure required under paragraph 33 (b) related to the weight and percentage of reused, or recycled, and renewable input materials used to manufacture the organisation products and services shall include:

- (a) the total weight of materials that are used to manufacture the undertaking's products and services during the reporting period, by:
 - i. reused or recycled; and
 - ii. renewable; and
- (b) the percentage of materials used to manufacture the undertaking's products and services, that are:
 - i. reused or recycled; and
 - ii. renewable.

AG 17. When compiling the percentage indicator, the undertaking shall use as denominator the overall total weight of materials used during the reporting period.

AG 18. The materials used shall include:

- (a) raw materials;
- (b) associated process material; and
- (c) semi-manufactured goods or parts.

AG 19. The reported usage data are to reflect the material in its original state, and not to be presented with further data manipulation, such as reporting it as "dry weight".

AG 20. In cases where reused, recycled, renewable categories overlap, the undertaking shall explain how double counting was avoided and choices that were made.

AG 21. The disclosure required under paragraph 33 (c) related to the weight and percentage of reused, recycled and renewable input material used to package the undertaking's primary products and services should include the following information:

- (a) the total weight of materials that are used to package the undertaking's primary products and services during the reporting period, by:

- i. reused or recycled; and
 - ii. renewable;
- (b) the percentage of materials used to package the undertaking's primary products and services that are:
- i. reused or recycled; and
 - ii. renewable.

AG 22. When compiling the percentage indicator, the undertaking shall use as denominator the overall total weight of materials used for packaging during the reporting period. Packaging means any packaging used to procure or sell materials or products, as well as packaging waste created through a company's operations.

AG 23. As additional information the undertaking shall report whether these data are sourced from direct measurement or estimated; if estimation is required, the methods used shall be reported.

Disclosure Requirement E5-5 - Resource outflows

AG 24. Resource outflows refers to all materials and products that a company puts on the market (including packaging).

AG 25. The disclosure required under paragraph 34 shall include:

- (a) the total weight and percentage of materials that come out of the undertaking's products and services production process, including packaging that have been designed for:
 - iii. durability;
 - iv. reusability;
 - v. repairability;
 - vi. disassembly;
 - vii. remanufacturing or refurbishment;
 - viii. recycling; and
 - ix. other potential optimisation of product and material use;
- (b) the total weight and percentage of products containing substances of concern (as defined in ESRS E3 Water and marine resources); and
- (c) additional information on the weight and percentage of products and materials that come out of the undertaking including packaging that are recirculated in practice after their first use.

AG 26. Waste production coming out of the undertaking's products and services production process, even if diverted from disposal, have to be disclosed under ESRS E5 Disclosure Requirement E5-6 Waste.

AG 27. When compiling the percentage indicator, the undertaking shall use as denominator the overall total weight of materials used during the reporting period.

AG 28. As additional information the undertaking shall report whether these data are sourced from direct measurement or estimated; if estimation is required, the methods used shall be reported.

Disclosure Requirement E5-6 - Waste

- AG 29. The weight of hazardous and non-hazardous waste generated shall be expressed in tons.
- AG 30. When reporting composition of the waste, the undertaking may describe:
- (a) the type of waste, such as hazardous waste or non-hazardous waste;
 - (b) the waste streams, relevant to its sector or activities (e.g., tailings for an undertaking in the mining sector, electronic waste for an undertaking in the consumer electronics sector, or food waste for an undertaking in the agriculture or in the hospitality sector); and
 - (c) the materials that are present in the waste (e.g., biomass, metals, non-metallic minerals, plastics, textiles).
- AG 31. Besides incineration and landfilling, the undertaking may specify the other types of disposal operations such as dumping, open burning, or deep well injection.
- AG 32. Where relevant, the undertaking shall:
- (a) explain the reasons for the difference between the weights of waste directed to disposal on its own operations and in the upstream and downstream value chain (e.g., local regulations that prohibit landfilling of specific types of waste);
 - (b) describe sector practices, sector standards, or external regulations that mandate a specific disposal operation; and
 - (c) specify whether the data has been modelled or sourced from direct measurements, such as waste transfer notes from contracted waste collectors, external assurance, or audits of waste-related data.

Disclosure Requirement E5-7 - Resource use optimisation

- AG 33. The undertaking shall illustrate and describe the business model to strengthen value retention, while considering the sector-specific standards and how the circular economy is addressed in those standards.
- AG 34. The undertaking may consider the following circular business models:
- (d) product-as-a-service business model where the ownership of the product remains with the manufacturer, and the lifetime and the intensity of use of a product is increased;
 - (e) rental or leasing where ownership of the product remains with the manufacturer or lessor and the lifetime and the intensity of use of a product is increased; and
 - (f) sharing models that increase the intensity of use of a product (e.g. car-sharing platforms).
- AG 35. The examples given are non-comprehensive. Any enumeration would remain incomplete at the current stage of circularity. Thus, the undertaking shall provide illustrations in order to make the link between (i) products and services net turnover and (ii) value retention transparent.
- AG 36. The undertaking shall disclose a reconciliation of the net turnover reference to the most relevant amount presented in the financial statements.

Disclosure Requirement E5-8 - Circularity support

AG 37. The undertaking shall illustrate and describe the actions taken to engage with its upstream and downstream value chain, with customers and end-users, and the participation to external initiatives driving circular economy.

AG 38. The disclosure required is focused on products and materials that do not meet the requirement for circular product design in ESRS E5 Disclosure Requirement E5-4 Resource inflows and Disclosure Requirement E5-5 Resource outflows but are designed to enhance or foster circular economy principles.

AG 39. To provide transparency on its capacity to increase the circularity flows, the undertaking shall provide information on how it engages with suppliers further up or customers further down the value chain. This includes potentially smart waste collection systems.



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