

EXPOSURE DRAFT

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# ESRS E2 Pollution

Basis for conclusions

May 2022



**DISCLAIMER**

This Basis for Conclusions accompanies but is not part of the Exposure Draft ESRS E2 Pollution. It summarises the considerations of the EFRAG PTF-ESRS and the references to other standard setting initiatives or regulations used in developing the proposed contents of the Exposure Draft.

This Basis for Conclusions has been prepared solely under the responsibility of the EFRAG PTF-ESRS. 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.

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## Objective

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- BC1. The objective of this [Draft] Standard is to set disclosure requirements that cover the information required by undertakings across all sectors (subject to the rebuttable presumption in paragraph 57 to 62 of ESRS 1 General principles) in order to report under a double materiality perspective. It covers in particular:
- (a) the impacts (in particular emissions of pollutants);
  - (b) the actions and their results;
  - (c) the material risks and opportunities arising from the undertaking's impacts and dependencies; and
  - (d) the effects of risks and opportunities on the undertaking's development, performance and position over the short, medium and long-term and therefore on its ability to affect enterprise value (financial effects).

## Context and reference table

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### Approach to drafting of the standard

- BC2. The approach to drafting this proposal has been described in the cover note of the consultation documents.
- BC3. The [Draft] ESRS E2 Pollution cover disclosure proposals related to pollution of air, water, or soil, as already defined in EU existing legislation and policies. In addition, the [Draft] ESRS E2 covers substances of concern including most harmful substances, as well as enabling activities, which are both still subject to formal legislative initiatives and definitions (ZPAP; Chemicals strategy for sustainability; EU Taxonomy regarding Pollution Prevention and Control).
- BC4. Besides, all environment objectives of the Taxonomy are interrelate as reminded in the Platform on Sustainable Finance's report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU Taxonomy. Hence the provisions of ESRS E2 are to be read in conjunction with other environmental standards.
- BC5. This Standard arises from the relevant provisions from the [Draft] CSRD proposal, from existing and upcoming EU legislation (Industrial Emissions Directive [IED]<sup>1</sup>, Seveso III Directive<sup>2</sup>, EU Taxonomy<sup>3</sup>, SFDR<sup>4</sup>, E-PRTR<sup>5</sup>, PEF/OEF<sup>6</sup>, EMAS<sup>7</sup>) and from the EU Action Plan: "Towards a Zero Pollution for Air, Water and Soil" (ZPAP).
- BC6. In the development of [Draft] ESRS E2 a number of international initiatives have been considered, including:

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<sup>1</sup> DIRECTIVE 2010/75/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 24 November 2010 on industrial emissions (integrated pollution prevention and control)

<sup>2</sup> DIRECTIVE 2012/18/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 4 July 2012 on the control of major-accident hazards involving dangerous substances

<sup>3</sup> Platform on Sustainable Finance's report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy, 30 March 2022

<sup>4</sup> "Adverse sustainability indicators" from the [SFDR PAI Indicators, Annex I](#)

<sup>5</sup> European Pollutant Release and Transfer Register (E-PRTR), <https://ec.europa.eu/environment/industry/stationary/e-prtr/legislation.htm>

<sup>6</sup> Final Product Environmental Footprint and Organisation Environmental Footprint methods (2013), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013H0179>

<sup>7</sup> EMAS regulations published under [https://ec.europa.eu/environment/emas/emas\\_publications/policy\\_en.htm](https://ec.europa.eu/environment/emas/emas_publications/policy_en.htm)

- (a) the GRI;
- (b) the proposed performance measures with those of the SASB, based on the KPIs considered for sector-specific standards;
- (c) the WEF metrics (World Economic Forum, 'Measuring Stakeholder Capitalism, Towards Common Metrics and Consistent Reporting of Sustainable Value Creation', White Paper, September 2020).
- (d) the Natural Capital Protocol<sup>8</sup>; and
- (e) the ISO Standard 14008:2019, covering the monetary valuation of environmental impacts and related environmental aspects, as well as other pollution and air quality ISO standards.

EU legislation and policies alignment:

- BC7. To ensure consistency with the public policy targets of the European Union, and to align with other initiatives, the [Draft] ESRS E2 has been very closely aligned with the following publications, although they represent in some instances still drafts to be formally approved. As such, along with formal approval of the respective texts further changes might be envisaged to the [Draft] ESRS E2:
- (a) the Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control) (IED);
  - (b) the Directive 2012/18/EU of the European Parliament and of the Council of 4 July 2012 on the control of major-accident hazards involving dangerous substances;
  - (c) the Platform on Sustainable Finance's report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy published on 30 March 2022;
  - (d) EU Regulation 166/2006 concerning the establishment of a European Pollutant Release and Transfer Register (E-PRTR Regulation);
  - (e) the Commission Recommendation (EU) 2021/2279 of 15 December 2021 on the use of the Environmental Footprint methods to measure and communicate the life cycle environmental performance of products and organisations;
  - (f) the Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organisations in a community eco-management and audit scheme (EMAS Regulation); and
  - (g) the EU Action Plan: "Towards a Zero Pollution for Air, Water and Soil" (ZPAP) as a key deliverable of the EU Green Deal, adopted by the EU Commission on 12 May 2021.

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<sup>8</sup> Natural Capital Coalition. 2016. "Natural Capital Protocol". (Online) available at: [www.naturalcapitalcoalition.org/protocol](http://www.naturalcapitalcoalition.org/protocol)

- BC8. The IED stipulates that “in order to prevent, reduce and as far as possible eliminate pollution arising from industrial activities in compliance with the “polluter pays” principle and the principle of pollution prevention, it is necessary to establish a general framework for the control of the main industrial activities, giving priority to intervention at source, ensuring prudent management of natural resources and taking into account, when necessary, the economic situation and specific local characteristics of the place in which the industrial activity is taking place.” The IED’s framework introduces the best available techniques (“BAT”) concept, and this has been taken into account when developing the [Draft] ESRS E2, e.g. DR E2-2 and E2-4.
- BC9. The Directive 2012/18/EU of the European Parliament and of the Council of 4 July 2012 on the control of major-accident hazards involving dangerous substances ‘lays down rules for the prevention of major accidents which involve dangerous substances, and the limitation of their consequences for human health and the environment, with a view to ensuring a high level of protection throughout the Union in a consistent and effective manner’. This Directive has been taken into account when developing Disclosure Requirements regarding the undertaking’s policies under the [Draft] ESRS E2.
- BC10. The Platform on Sustainable Finance’s report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy published on 30 March 2022, contains headline ambition levels regarding pollution. However, it has to be stated that those headline ambition levels are not necessarily reflecting level one legislative texts of the EU, so only elements of these headline ambition levels were considered in the elaboration of [Draft] ESRS E2.
- BC11. The SFDR RTS, in its final version published by the European Commission on 6 April 2022, require a mandatory reporting template to describe how principal adverse impacts on sustainability factors are taken into consideration in investment decisions.<sup>9</sup> The indicators have been taken into account when developing the performance measures under the [Draft] ESRS E2.
- BC12. The European Pollutant Release and Transfer Register (“E-PRTR” Regulation) provides one basis for concluding on performance measures, which non-financial undertakings shall disclose also under the ESRS E2 Pollution. The E-PRTR clearly defines Activities as well as Pollutants that are already today required to be disclosed under the E-PRTR. Thus, the E-PRTR Regulation has been retained to define the thresholds for disclosure of undertakings under DR E2-4, based on Annex II of the regulation.
- BC13. The Commission Recommendation (EU) 2021/2279 of 15 December 2021 on the use of the Environmental Footprint methods to measure and communicate the life cycle environmental performance of products and organisations “promotes the use of the environmental footprint methods in relevant policies and schemes related to the measurement or communication of the life cycle environmental performance of products or organisations”. When developing the Disclosure Requirements of the [Draft] ESRS E2 Pollution, those have incorporated a reference to this Commission Recommendation under AG7 on materiality assessment or have been compared to this Commission Recommendation (DR E2-4).

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<sup>9</sup> Sustainable Finance Disclosure Regulation (SFDR) draft Regulatory Technical Standards (RTS), published on 2 February 2021, page 59-82

- BC14. The objective of the EMAS Regulation “is to promote continuous improvements in the environmental performance of organisations by the establishment and implementation of environmental management systems by organisations, the systematic, objective and periodic evaluation of the performance of such systems, the provision of information on environmental performance, an open dialogue with the public and other interested parties and the active involvement of employees in organisations and appropriate training.” When developing the Disclosure Requirement E2-4 of the [Draft] ESRS E2, those have been compared to this Regulation.
- BC15. ZPAP<sup>10</sup> is an important framework as it stipulates the EU ambitions towards pollution prevention and control, and should therefore be taken into account by non-financial undertakings when reporting on arising risks and opportunities related to pollution prevention and control: ‘The main objective of this action plan is to provide a compass for including pollution prevention in all relevant EU policies, maximising synergies in an effective and proportionate way, stepping up implementation and identifying possible gaps or trade-offs. To steer the EU towards the 2050 vision of a Healthy Planet for All, this action plan sets key 2030 targets to speed up pollution reduction. [...] Under EU law, Green Deal ambitions and in synergy with other initiatives, by 2030 the EU should reduce: 1. by more than 55% the health impacts (premature deaths) of air pollution; 2. by 30% the share of people chronically disturbed by transport noise; 3. by 25% the EU ecosystems where air pollution threatens biodiversity; 4. by 50% nutrient losses, the use and risk of chemical pesticides, the use of the more hazardous ones, and the sale of antimicrobials for farmed animals and in aquaculture; 5. by 50% plastic litter at sea and by 30% microplastics released into the environment; 6. significantly total waste generation and by 50% residual municipal waste. This action plan also sets out key actions for 2021-2024 to complement the many relevant actions in other European Green Deal initiatives, including the chemicals strategy for sustainability.’<sup>11</sup> As such, a reference to the ZPAP has been retained in DR E2-2 on measurable targets for pollution, and in AG3 on the resilience of the strategy and business model.
- BC16. It has to be stated that the regulatory environment regarding pollution within the European Union is under dynamic development and will further evolve as the [Draft] ESRS E2 will enter into effect. Therefore, changes to the [Draft] ESRS E2 might occur as the regulatory framework within the European Union might change.
- BC17. In order to comply with the requirements of the [Draft] CSRD, considering the EU legislative framework and taking into account current international frameworks, the following disclosure requirements emerge as most relevant:

Disclosure Requirement	[Draft] CSRD references (w/o Article 29a)	European framework references	International framework references
<b>Disclosure Requirement E2-1 – Policies implemented to prevent and control pollution</b>	Article 19a 2(a)(iii) and (v) Article 19a 2(d) Article 19b 2(a)(v)	Directive 2012/18/EU of the European Parliament and of the Council of 4 July 2012 on the control of major-accident hazards involving dangerous substances	GRI 103-2-c (i, ii, iii) TCFD

<sup>10</sup> EU Action plan: Towards a Zero Pollution for Air, Water and Soil

<sup>11</sup> [https://eur-lex.europa.eu/resource.html?uri=cellar:a1c34a56-b314-11eb-8aca-01aa75ed71a1.0001.02/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:a1c34a56-b314-11eb-8aca-01aa75ed71a1.0001.02/DOC_1&format=PDF), page 3

Disclosure Requirement	[Draft] CSRD references (w/o Article 29a)	European framework references	International framework references
<b>Disclosure Requirement E2-2 – Measurable targets for pollution</b>	Article 19a 2(a)(v) Article 19a 2(b) Article 19a 2(g) Article 19a 3 Article 19b 2(a)(v)	Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control)  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  EU Action Plan: “Towards a Zero Pollution for Air, Water and Soil” (ZPAP)	GRI 103-2-c- iii  TCFD
<b>Disclosure Requirement E2-3 – Pollution action plans and resources</b>	Article 19a 2(a)(iii) and (v) Article 19a 2(e)(iii) Article 19b 2(a)(v)	Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control)  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, in conjunction with the Delegated Acts on Technical Screening Criteria for the environmental objectives	GRI 103-2-c- v, vii
<b>Disclosure Requirement E2-4 – Pollution of air, water and soil</b>	Article 19a 2.and 2.(g) Article 19a 3 Article 19b 2(a)(v)	Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control)  EU Regulation 166/2006 concerning the establishment of a European Pollutant Release and Transfer Register (E-PRTR Regulation)  Sustainable Finance Disclosure Regulation (SFDR) PAI indicators	GRI 305-6 & 305-7  WEF Metrics  Natural capital protocol  WHO Global Air Quality guidelines (WHO AQGs)



Disclosure Requirement	[Draft] CSRD references (w/o Article 29a)	European framework references	International framework references
		Platform on Sustainable Finance's report on the four remaining environmental objectives from March 2022	
<b>Disclosure Requirement E2-5 – Substances of concern and most harmful substances</b>	Article 19a 2 and 2(g) Article 19a 3 Article 19b 2(a)(v)	EU Action Plan: "Towards a Zero Pollution for Air, Water and Soil" (ZPAP)  Platform on Sustainable Finance's report on the four remaining environmental objectives from March 2022	--
<b>Taxonomy Regulation for pollution prevention and control including enabling activities</b>	Article 19a 2 and 2(g) Article 19b 2(a)(v) Article 19b 3(c)	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, in conjunction with the Commission Delegated Regulation (EU) 2021/2178	--
<b>Disclosure Requirement E2-6 – Pollution-related incidents and deposit impacts and risks, and financial exposure to the undertaking</b>	Article 19a 2 and 2(g) Article 19a 3 Article 19b 2(a)(v)	Directive 2012/18/EU of the European Parliament and of the Council of 4 July 2012 on the control of major-accident hazards involving dangerous substances  European Reporting Lab @ EFRAG, FINAL REPORT PROPOSALS FOR A RELEVANT AND DYNAMIC EU SUSTAINABILITY REPORTING STANDARD SETTING, February 2021 on "Connectivity" (p. 8)	--
<b>Disclosure Requirement E2-7 – Potential financial effects from pollution-related IROs</b>	Article 19a 2 and 2(g) Article 19a 3 Article 19b 2(a)(v)	European Reporting Lab @ EFRAG, FINAL REPORT PROPOSALS FOR A RELEVANT AND DYNAMIC EU SUSTAINABILITY REPORTING STANDARD SETTING, February 2021 on "Connectivity" (p. 8)	--

## Structure of ESRS E2 Pollution

BC18. The European Commission’s Platform on Sustainable Finance (“PSF”) has defined criteria for prioritization of sectors that shall be addressed first through the EU Taxonomy for Pollution Prevention and Control. In an approach to seek alignment with the EU Taxonomy, [Draft] ESRS E2 gravitates towards that same structure, although the EU Taxonomy for Pollution Prevention and Control has not been approved yet. It is important to state that below figure from March 2022 rather describes the structure followed by ESRS E2, while the exact indicators to be reported vary.

BC19. The “Indicators used to establish priority activities” for pollution of the PSF:<sup>12</sup>

Indicators	
Pollution of air	SOx (sulphur oxides)
	NOx (nitrogen oxides)
	CO (carbon monoxide)
	PM (particulate matter)
	Heavy metals
	POPs (persistent organic pollutants)
	VOCs (volatile organic compounds)
	ODS (ozone depleting substances)
	NH3 (ammonia)
	Other (hazardous) chemicals regulated by REACH and CLP and their compounds (e.g. SVHC, chlorine, fluorine, bromine, iodine, asbestos, cyanides, other CMRs, PBTs, EDCs)
Other physical pollutants (heat, noise, light, radiation, odour)	
Pollution of water	Oxygen demanding pollutants and nutrients (bio-degradable organic compounds in suspended, colloidal, or dissolved form)
	Synthetic organic compounds (pesticides, detergents, food additives, pharmaceuticals, insecticides, paints, fibres, PCBs, solvents, PAHs, and VOCs,)
	Oil
	Pathogens (viruses, bacteria)
	Inorganic pollutants (heavy metals, mineral acids, inorganic salts, other metals, complexes of metals with organic compounds, cyanides, sulphates, etc.)
	Microplastics and plastic particles
	Other physical pollutants (heat, radiation, light, noise/vibration, suspended solids and sediments)
Pollution of soil	Inorganic pollutants
	Organic compounds, including POPs, pesticides, pharmaceuticals and antibiotics
	Nitrogen and phosphorous compounds
	Other (physical) pollutants (vibrations, microplastics and plastic particles)

<sup>12</sup> Platform on Sustainable Finance’s report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy published on 30 March 2022, pages 104-105

BC20. In addition, the PSF’s report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy published on 30 March 2022, stipulates the following possible Substantial Contribution criteria for Pollution Prevention and Control<sup>13</sup>:

“SC 1A: preventing or, where that is not practicable, reducing direct emissions of pollutants to air, water and land. Activities with high direct pollution emissions (in sectors such as agriculture, transport, manufacturing, etc.) can reduce the pressure they directly exert on the environment compared to the baseline.

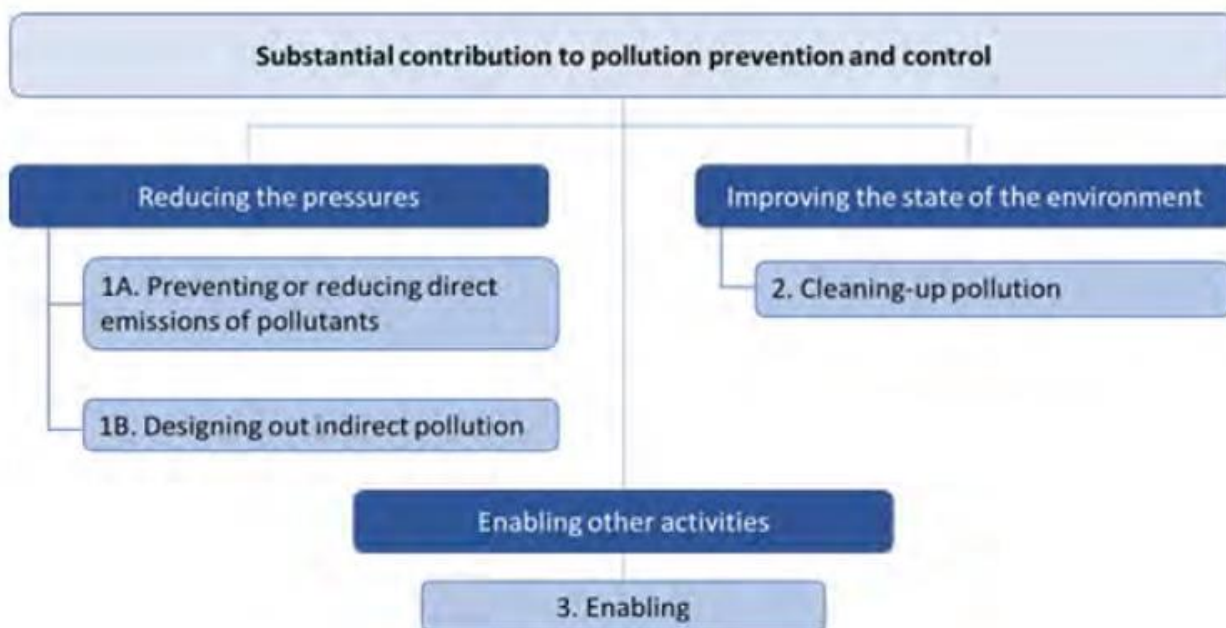
SC 1B: designing out indirect pollution. Activities manufacturing products or providing services with high emissions over their life-cycle can reduce the overall pressure exerted on the environment by designing the product or service in such a way that reduces or eliminates these emissions. This includes: emission from the use phase (for instance, considering a car manufacturing activity tackling and minimizing the emissions of its cars during use phase);

emissions from the end-of-life phase (for instance, a battery manufacturer reducing potential environmental impacts of the end-of-life product or ensuring safe recovery) upstream emissions if relevant (an activity selecting materials or components that have lower emissions during the extraction or production phase).

SC 2: cleaning up pollution. Activities performing remediation may directly improve the state of the environment. For instance, the remediation of a former industrial site where land is polluted with chemicals or technologies cleaning litter pollution from the ocean.

SC 3: enabling any of the activities above. An activity, for instance, providing solutions to measure or abate pollutants’ emissions (e.g. manufacturing of NOx filters).”

BC21. The PSF’s types of substantial contribution to pollution prevention and control are designed as follows:



<sup>13</sup> Platform on Sustainable Finance’s report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy published on 30 March 2022, page 53

- BC22. In alignment with the draft approach of the EU Taxonomy regarding Substantial Contribution to Pollution Prevention and Control, [Draft] ESRS E2 addresses both the reduction of pressures, i.e. pollution itself, as well as enabling activities for pollution prevention and controls (e.g. products and services). Cleaning-up pollution, where not considered a sector-specific activity, is also included in the [Draft] ESRS E2.
- BC23. Additional aspects, substances of concern as well as enabling activities are also covered through [Draft] ESRS E2.
- BC24. This structure fits with the SFDR PAI Indicators as well as with the policy areas addressed by ZPAP, as displayed in the following table:

Proposed structure of the ESRS E2	Matching SFDR PAI, Indicators of Annex 1 <sup>14</sup>	Policy areas addressed by the Zero Pollution Action Plan (ZPAP) <sup>15</sup>
Pollution of air	Emissions of inorganic pollutants Emissions of air pollutants Emissions of ozone depletion substances	Air: EU action to improve air quality and reduce air pollution.
Pollution of water	Emissions, effluents, and other entries into water	Water: EU action on water issues, to protect water resources.
Pollution of soil		Soil and land: EU action for the sustainable use of soil and land.
Substances of concern	Hazardous waste ratio	Industrial emissions: EU action to make industry more sustainable and reduce industrial emissions. Chemicals: EU Chemical Strategy to ensure chemicals are safe, for health and the environment. Noise: EU action to reduce environmental noise pollution. Plastics: EU action on plastic production and pollution to contribute to a circular economy.

<sup>14</sup> Source: [SFDR PAI, Indicators of Annex 1](#)

<sup>15</sup> EU Action Plan: 'Towards a Zero Pollution for Air, Water and Soil', [https://ec.europa.eu/environment/strategy/zero-pollution-action-plan\\_en#ecl-inpage-211](https://ec.europa.eu/environment/strategy/zero-pollution-action-plan_en#ecl-inpage-211)

## **Disclosure Requirements**

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BC25. The table in BC3 and the following paragraphs illustrates the sources and references used in the definition of the Disclosure Requirements of [Draft] ESRS E2.

### ***General, Strategy, Governance and Materiality assessment***

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BC26. The topical [Draft] ESRS E2 does not include additional pollution-specific Disclosure Requirements. Instead, the provisions of the [Draft] ESRS E2 shall be read in conjunction with and reported alongside the Disclosure Requirements of [Draft] ESRS 2. However, the Pollution-related specific Application Guidance on:

- (a) ESRS 2 Disclosure Requirement SBM 4, paragraph 47 (d) on the resilience of the strategy and business model, and
- (b) ESRS 2 Disclosure Requirements IRO 1 and IRO 2 on materiality assessment, makes reference to the EU regulatory frameworks detailed under BC6.

### ***Policies, targets, action plans and resources***

#### ***Disclosure Requirement E2-1 – Policies implemented to prevent and control pollution***

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BC27. While the description of the policies should follow the approach set out in the cross-cutting standard [Draft] ESRS 1, the specific pollution aspects were determined by referencing existing European frameworks, notably the Directive 2012/18/EU of the European Parliament and of the Council of 4 July 2012 on the control of major-accident hazards involving dangerous substances which stipulates that 'Member States shall require the operator to draw up a document in writing setting out the major-accident prevention policy (MAPP) and to ensure that it is properly implemented. The MAPP shall be designed to ensure a high level of protection of human health and the environment. It shall be proportionate to the major-accident hazards. It shall include the operator's overall aims and principles of action, the role and responsibility of management, as well as the commitment towards continuously improving the control of major-accident hazards and ensuring a high level of protection.'

- (a) The EU Zero Pollution Action Plan highlights the need for 'a better integrated overview of pollution for public and private actors to tackle connected pollution issues across space and time and address their interplay with other environmental, social and economic considerations as effectively as possible in their policy, investment and purchase decisions'.
- (b) The Taxonomy proposal published on 3 August 2021, which stipulates possible Substantial Contribution aspects for Pollution Prevention and Control: these aspects have been selected to categorise objectives given in paragraph 21 (b) of [Draft] ESRS E2.

BC28. The proposed Disclosure Requirements on Policies implemented to prevent and control pollution have taken these legislative texts or proposals into account in order to derive recommendations for Pollution.

BC29. When elaborating the [Draft] ESRS E2, the GRI requirements were also considered, and in particular Disclosure 103-2 on 'the management approach and its components'.

BC30. In addition, the aspects on Policies for Pollution have been strongly aligned with the content of the other environmental [Draft] ESRS, all of them also adapting the key concepts from TCFD.

### ***Disclosure Requirement E2-2 – Measurable targets for pollution***

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BC31. While the description of the targets should follow the approach set out in the cross-cutting standard [Draft] ESRS 1, the specific pollution aspects were determined by referencing existing European frameworks. Based on the feedback of the Expert Working Group, this included the IED and the Best Available Techniques (BAT) frameworks.

BC32. In addition, the GRI requirements were considered, and in particular Disclosure 103-2 on “the management approach and its components”, which includes the disclosure of “goals and targets” as part of the description of the management approach. When reporting on goals and targets, the GRI Disclosure 103-2-c-iii, states that the reporting organization should disclose ‘whether goals and targets are mandatory (based on legislation) or voluntary. If they are mandatory, the organization should list the relevant legislation’<sup>16</sup>.

BC33. A key source of mandatory goals and targets in the EU is the IED which prescribes, concerning the permit for certain installations, that ‘the permit should also include emission limit values for polluting substances, or equivalent parameters or technical measures, appropriate requirements to protect the soil and groundwater and monitoring requirements.’

BC34. Alignment with ZPAP was sought through the disclosure of how targets support the reduction and substitution of substances of concern.

### ***Disclosure Requirement E2-3 – Pollution action plans and resources***

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BC35. While the disclosures in relation to action plans should follow the approach set out in the cross-cutting standard [Draft] ESRS 1, the specific pollution aspects were determined by referencing existing European frameworks.

BC36. ZPAP suggests that providing “less polluting goods and services entails significant business opportunities, already mobilising EU companies towards innovative solutions” and calls for pollution to be prevented at the source, if prevention is not possible pollution should be minimised and where pollution occurred, it should be remediated.<sup>17</sup>

BC37. [Draft] ESRS E2 has taken into consideration the headline level of ambition for the objectives Pollution Prevention and Control of the Platform on Sustainable Finance’s report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU Taxonomy published on 30 March 2022.

BC38. This headline level of ambition is based on the following rationale (subsequent text copied from the PSF’s report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy published on 30 March 2022<sup>18</sup>):

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<sup>16</sup> GRI 103: Management Approach 2016, p.8-9

<sup>17</sup> EU Action Plan: ‘Towards a Zero Pollution for Air, Water and Soil’, [https://ec.europa.eu/environment/strategy/zero-pollution-action-plan\\_en#ecl-inpage-211](https://ec.europa.eu/environment/strategy/zero-pollution-action-plan_en#ecl-inpage-211), p. 2+4

<sup>18</sup> Source: Platform on Sustainable Finance’s report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy published on 30 March 2022, p. 31-32

- BC39. 'By 2030, pollution sources, sinks and pathways due to human activities have been fully identified and measures have been applied that prevent and eliminate pollution across air, water, soil, living organisms and food resources. By 2030, the production and use of substances, materials and products is safe and taxonomy-aligned [...] Legacy pollution is safely remediated, and pollutants are destroyed or irreversibly transformed into safe materials. By 2030, pollution resulting from heat, noise, light, and vibration has been identified and reduced to prevent, or if prevention is not practicable, minimize any adverse impact on human health and the environment.'
- BC40. The Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control) underlines the importance of the "best available techniques (BAT)" concept to grant permits for installations, so that meeting BAT requirements is an important element of pollution related action plans and resources, in particular as BAT requirements can develop dynamically as stipulate in this directive: 'In order to take account of developments in best available techniques or other changes to an installation, permit conditions should be reconsidered regularly and, where necessary, updated, in particular where new or updated BAT conclusions are adopted.'
- BC41. Taken together these EU frameworks provide for a core set of topics around which to include disclosures within ESRS E2, and these have been used in drafting the proposed Disclosure Requirements.
- BC42. In addition, the GRI requirements were considered, including Disclosure 103-2 on 'the management approach and its components', which includes disclosure of the management approach includes responsibilities, resources, grievance mechanisms, and specific actions, such as processes, projects, programs and initiatives (refer to 103-2-c-v and 103-2-c-vii).

## **Performance measures**

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### **Disclosure Requirement E2-4 – Pollution of air, water and soil**

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- BC43. The Disclosure Requirement is based on the structure and the content of the headline ambition level of the EU Taxonomy proposal for Pollution Prevention and Control, as well as on the art. 8 of the EU Taxonomy Regulation and aligned with the GRI standards 305-6 and 305-7 in the GRI Standard on Emissions.
- BC44. E-PRTR Regulation provides another basis for concluding on performance measures. The E-PRTR shall represent 'a cost-effective tool for encouraging improvements in environmental performance, for providing public access to information on releases of pollutants and off-site transfers of pollutants and waste, and for use in tracking trends, demonstrating progress in pollution reduction, monitoring compliance with certain international agreements, setting priorities and evaluating progress achieved through Community and national environmental policies and programmes. [...] An integrated and coherent PRTR gives the public, industry, scientists, insurance companies, local authorities, non-governmental organisations and other decision-makers a solid database for comparisons and future decisions in environmental matters'<sup>19</sup>. The E-PRTR clearly defines Activities as well as Pollutants that are already today required to be disclosed under the E-PRTR Regulation.

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<sup>19</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006R0166&from=EN>

- BC45. The SFDR PAI indicators provide a – however limited – number of “adverse sustainability indicators” regarding pollution, which have been taken into account for drafting this Disclosure Requirement.
- BC46. Forward-looking performance measures should be identical with the retrospective performance measures. This shall ensure traceability and comparability over time to measure progress not just compared to targets, but also compared to past performance.
- BC47. Defining meaningful data regarding pollution from the design of products, e.g., leading to pollution in the use phase, at the end-of-life phase, from upstream products, shall consider the ‘Commission Recommendation (EU) 2021/2279 of 15 December 2021 on the use of the Environmental Footprint methods to measure and communicate the life cycle environmental performance of products and organisations<sup>20</sup> and will be aligned closely with the upcoming EU Taxonomy regulations for Pollution Prevention and Control.
- BC48. The [Draft] ESRS seeks to achieve as much as possible alignment or compatibility with other international initiatives. The following international initiatives have been considered:
- (a) GRI does not provide a reporting standard on pollution; in preparing [Draft] ESRS E2 the emissions-related GRI standards 305-6 (Emissions of ozone-depleting substances (ODS)) and 305-7 (Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions) have been considered.
  - (b) The proposed performance measures have been aligned with those of the Sustainability Accounting Standards Board (SASB)<sup>21</sup>, based on the KPIs considered by the Project Taskforce dedicated cluster on the definition of sector-specific standards.
  - (c) The WEF metrics (World Economic Forum, ‘Measuring Stakeholder Capitalism, Towards Common Metrics and Consistent Reporting of Sustainable Value Creation’, White Paper, September 2020) have been considered, although they themselves – for Pollution – refer to the GRI standard 305-7 and the ‘Natural Capital Protocol’.
  - (d) The WEF metrics add a relevant aspect to the reporting on Pollution: ‘Companies have long understood that reporting simple output metrics (e.g. tonnes of air pollutants) is insufficient on its own, if the goal is to understand the actual impacts on the planet and society associated with these outputs. For example, the same volume of air pollution emissions will adversely affect the health of more people in a densely populated city than in a rural area. Simply reporting the pollution output would tell us relatively little about the true impacts of a business or the effectiveness of its efforts to reduce those impacts.’<sup>22</sup>

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<sup>20</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013H0179&from=EN>

<sup>21</sup> For example based on or referring to: Air emissions of the following pollutants: (1) CO, (2) NOx (excluding N2O), (3) SOx, (4) particulate matter (PM10), (5) manganese (MnO), (6) lead (Pb), (7) volatile organic compounds (VOCs), and (8) polycyclic aromatic hydrocarbons (PAHs); (1) Number and (2) aggregate volume of spills and releases to the environment; (1) Number of underground storage tanks (USTs), (2) number of UST releases requiring cleanup, and (3) percentage in states with UST financial assurance funds; Revenue from products that contain REACH substances of very high concern (SVHC); Revenue from products that contain substances on the California DTSC Candidate Chemicals List

<sup>22</sup> World Economic Forum, “Measuring Stakeholder Capitalism, Towards Common Metrics and Consistent Reporting of Sustainable Value Creation”, White Paper, September 2020, p. 26



BC49. In this context, the WHO Global Air Quality Guidelines 2021 (WHO AQGs)<sup>23</sup> stated:

- (a) 'identify the levels of air quality necessary to protect public health worldwide';
- (b) 'provide recommendations on air quality guidelines levels (and interim targets) for fine particle matter ("PM<sub>2.5</sub>"), inhalable particulate matter ("PM<sub>10</sub>"), Ozone(O<sub>3</sub>), nitrogen dioxide ("NO<sub>2</sub>"), Sulphur dioxide ("SO<sub>2</sub>") and carbon monoxide ("CO"), and qualitative good practice statements for certain types of particulate matter'; and
- (c) 'Guideline levels can be used as an evidence-informed reference to help decision-makers in setting legally binding standards and goals for air quality management'.

BC50. The EU Commission has undertaken steps to align more closely the EU's air quality standards with the WHO AQGs. As such, the WHO AQG indicators are a key reference in devising the ESRS indicators for pollution of air. The EU Zero Pollution Action Plan notes that "in 2022 the Commission will propose that the EU's air quality standards be aligned more closely with the upcoming WHO recommendations".

BC51. Thus, Pollution should not be reported on only in absolute or intensity terms but should also be reported on through contextual information. For this purpose, the [Draft] ESRS E2 makes reference to air quality indices, the degree of urbanization on where pollution occurs, and the amount of pollution of water and soil occurring in areas of high-water stress. Considering that some of these definitions do not exist consistently on a global scale, further work will be required to define the practical feasibility of such contextual reporting including further efforts for global harmonisation of definitions.

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<sup>23</sup><https://ec.europa.eu/environment/air/quality/documents/20210923%20-%20AAQ%20Revision%20-%20Stakeholder%20Meeting%20-%20WHO%20AQ%20Guidelines.pdf>

BC52. The table presents the list of pollutants of air included in the different frameworks considered:

ESRS proposal	GRI (305)	SASB (C7 database)	WEF Metrics	OEF / EMAS
<b>Pollution of air</b>				
SOx (sulphur oxides)	X	X	X	X
NOx (nitrogen oxides)	X	X	X	X
CO (carbon monoxide)		X		X
PM (particulate matter)	X	X	X	X
Heavy metals		X (mercury (Hg), manganese (MnO), lead (Pb))		
POPs (persistent organic pollutants)	X		X	
VOCs (volatile organic compounds)	X	X	X	
ODS (ozone depleting substances)	X (production, imports, exports)			
Other (hazardous) chemicals regulated by REACH and CLP and their compounds (e.g. SVHC, chlorine, fluorine, bromine, iodine, asbestos, cyanides, other CMRs, PBTs, EDCs)	X	X (polycyclic aromatic hydrocarbons (PAHs), hazardous air pollutants (HAPs), hydrogen sulfide (H <sub>2</sub> S))	X	

BC53. The table presents the list of pollutants of water included in the different frameworks considered:

ESRS proposal	GRI (305)	SASB (C7 database)	WEF Metrics	OEF / EMAS
<b>Pollution of water</b>				
Oxygen demanding pollutants and nutrients (bio-degradable organic compounds in suspended, colloidal, or dissolved form)				X (biochemical oxygen demand (BOD), chemical oxygen demand (COD))

BC54. The table presents the list of pollutants of soil included in the different frameworks considered:

ESRS proposal	GRI (305)	SASB (C7 database)	WEF Metrics	OEF / EMAS
<b>Pollution of soil</b>				
Nitrogen and phosphorous compounds			X (Phosphorous total (Tot-P, Nitrogen total Tot-N))	X (Phosphorous total (Tot-P, Nitrogen total Tot-N))

**Disclosure Requirement E2-5 – Substances of concern and most harmful substances**

- BC55. Substances of concern have intrinsic hazardous properties and are covered in the EU Chemical Strategy for Sustainability (now within the framework of ZPAP). Most harmful substances are a sub-group of Substances of Concern with the most serious negative effects to the environment, health and wildlife. Both require substantive actions focused on reduction in general and phasing out from products<sup>24</sup> and reflect the most dangerous and most urgent series of pollutants to be addressed when considering action.
- BC56. Besides, the [Draft] EU Taxonomy Regulation on Pollution Prevention and Control, ‘singles out two specific elements: substances of concern and most harmful substances.
- BC57. Pending final definition of substances and of timelines, disclosure requirements for performance measurement were developed inspired by the EU Taxonomy Regulation Article 8 Disclosure Requirements indicators for non-financial undertakings in order to address possible risks that might be related with changing regulation.
- BC58. The PFS’s report with recommendations on technical screening criteria has been used to identify the substances of concern.

**Disclosure Requirement E2-6 – Pollution-related incidents and deposit impacts and risks, and financial exposure to the undertaking**

- BC59. In combination of these regulatory requirements, Disclosure Requirement E2-6 has been developed to provide transparency from a double-materiality perspective.
- BC60. The Directive 2012/18/EU of the European Parliament and of the Council of 4 July 2012 on the control of major-accident hazards involving dangerous substances requests that ‘Member States shall ensure that, as soon as practicable following a major accident, the operator shall be required, using the most appropriate means to:
- (a) inform the competent authority;
  - (b) provide the competent authority with the following information as soon as it becomes available:
    - i. the circumstances of the accident;
    - ii. the dangerous substances involved;

<sup>24</sup> Source: Platform on Sustainable Finance’s report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy published on 30 March 2022, p. 33

- iii. the data available for assessing the effects of the accident on human health, the environment and property;
- iv. the emergency measures taken;
- (c) inform the competent authority of the steps envisaged to:
  - i. mitigate the medium-term and long-term effects of the accident;
  - ii. prevent any recurrence of such an accident;
- (d) update the information provided if further investigation reveals additional facts which alter that information or the conclusions drawn.’.

***Disclosure Requirement E2-7 – Financial effects from pollution-related impacts, risks and opportunities***

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BC61. The [Draft] CSRD proposal (article 19 a 1) requires setting disclosure requirements in ESRS that allow to report information necessary to understand how sustainability matters affect the undertaking’s development, performance and position. This requirement is reflected in the objective of this [Draft] Standard, in particular in the need to set requirements for undertakings to report about the effects of risks and opportunities on the undertaking’s development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value (financial effects).

BC62. This disclosure implements this requirement.



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