The Institutional Investors Group on Climate Change

IIGCC response to EFRAG consultation on draft European Sustainability Reporting Standards: ESRS E1 (Climate Change)

About us

The Institutional Investors Group on Climate Change (IIGCC) is the leading European membership body enabling the European investment community in driving significant and real progress by 2030 towards a net zero and resilient future. IIGCC's 350 members, representing €51 trillion AUM, are able to catalyse real-world change through their capital allocation decisions, stewardship and engagement with companies and the wider market, as well as through their policy advocacy.

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Executive summary

This paper sets out IIGCC's response to the European Financial Reporting Advisory Group's (EFRAG) proposed European Sustainability Reporting Standards (ESRS) for climate change (ESRS E1). Overall, IIGCC commends EFRAG for the significant work that has been undertaken to establish a comprehensive and ambitious sustainability reporting framework to enhance the comparability, consistency and decision-usefulness of climate-related disclosures. The proposed standards under ESRS E1 will go a considerable way in supporting the information needs of investors, and we believe they adequately address the disclosure requirements established by the Corporate Sustainability Reporting Directive (CSRD). We also note and welcome the broad alignment of the standards with the TCFD framework, and the International Sustainability Standards Board's (ISSB) proposed climate-related disclosures.

IIGCC has deliberately taken a targeted approach to our consultation response, focusing on disclosure requirements relating to climate change mitigation and adaptation and emphasising the need for more consistent, comparable and inteoperable reporting in certain areas across the 17 proposed disclosure requirements. We set these recommendations out at a high-level below, and in more detail in the body of our consultation response:

Policies and targets

Transition plan disclosures: IIGCC supports requirements for in-scope firms to disclose transition plans that align with limiting global warming to 1.5°C. We recommend that EFRAG tightens the definition to ensure reporting entities' transition plans are compatible with a low/no overshoot scenario by 2050.

We believe the transition plan disclosures could be further enhanced by incorporating the additional granular reporting requirements established under the Climate Action 100+ Net Zero Company

Benchmark (CA100+ Benchmark).[1] The CA100+ Benchmark was developed to provide investors with robust and comparable information on how companies are aligning their business strategies and operations with the goals of the Paris Agreement and a net zero emissions future. Disclosure requirements relating to policies adopted to meet the needs and expectations of wider stakeholders should include the additional granular disclosures set out in relation to external engagement and advocacy (see comments on transition plan disclosures and policies relating to climate change mitigation and adaptation).

Targets: To align with 1.5°C, reporting entities should be explicitly required to develop and disclose quantitative targets which are underpinned by more specific, granular criteria, including the indicators established by the CA100+ Benchmark and the Net Zero Investment Framework (the NZIF).[2] This should include long-, medium- and short-term targets for reducing GHG emissions on a clearly defined scope of emissions.

Climate change mitigation and adaptation action plans and resources: More detail is needed on how companies will implement their transition plans and achieve their targets in practice. In line with CA100+ Benchmark indicators 5 and 6, granular disclosures relating to decarbonisation strategies and capital allocation alignment should be incorporated into the reporting standard.

The proposed standards could also elaborate further on adaptation plan disclosure requirements, for example in the form of standards and guidance for the actions that companies can take to address physical risks and build climate resilience (see IIGCC's report on Building Resilience to a Changing Climate: Investor Expectations of Companies on Physical Risks and Opportunities).[3]

Energy consumption

IIGCC welcomes the detailed disclosure requirements on energy consumption, which are highly relevant for investors reporting on the Principal Adverse Impacts of their investments under the Sustainable Finance Disclosure Regulation (SFDR). It will be important to ensure these disclosures enable investors to benchmark energy consumption intensity particularly in relation to Scope 1 (fuel) and Scope 2 (electricity and heat) emissions.

GHG emissions

IIGCC welcomes the requirement to specify emissions disclosure in general, but recommends that Scope 2 disclosures should specify the contribution of renewable energy certificates in market-based accounting, or otherwise enable investors to discern a more credible measure of Scope 2. Companies should also seek to disclose "underlying" annual year-on-year changes in emissions, stripping out the impact of M&A and/or use of offsets to reduce emissions across Scopes 1 and 2 emissions, and separately, Scope 3 emissions. Additionally, we recommend that companies calculate and report their

[1] Climate Action 100+ Net Zero Company Benchmark, available here.
[2] IIGCC Net Zero Investment Framework Implementation Guide, available here.
[3] Building Resilience to a Changing Climate: Investor Expectations of Companies on Physical Risks and Opportunities, available here.

emissions in line with the GHG Protocol Corporate Standard, to support greater consistency and comparability of emissions disclosures.

Financial effects

Potential financial effects from material physical risks: IIGCC welcomes the specific focus on disclosures relating to physical risk exposures, given that the identification, management and mitigation of physical risks continues to be a key gap in company reporting. The disclosure requirements should make clear what constitutes a 'material' physical risk, with entities disclosing how materiality is defined and critical thresholds to differentiate between 'tolerable' and 'intolerable' levels of risk.

In addition, IIGCC recommends the inclusion of disclosures of reporting entities' physical risk exposures in line with our Investor Expectations of Companies on Physical Risks and Opportunities. The financial impacts of climate-related risks must also be fully integrated into financial statements, as well as the management report, in line with guidance from the International Accounting Standards Board (IASB) and the European Securities Market Authority. For further detail, please refer to IIGCC's Investor Expectations paper for Paris-aligned Accounts.[4]

Potential financial effects from material transition risks: IIGCC reiterates the need to define 'material' transition risks, to broaden the scope beyond financial impacts in line with the CSRD's double materiality approach, and for the full integration of these financial effects into the financial statements.

Potential financial effects from climate-related opportunities: We broadly support the disclosure requirements for climate-related opportunities and welcome the links made to EU Taxonomy (although these could be enhanced further). In addition, disclosures on opportunities should be separated out to account for transition and physical opportunities.

Wider feedback

Level of detail/granularity: IIGCC welcomes the level of granularity set out in EFRAG's proposed climate disclosures, as well as the clear links to wider sustainable finance regulations. However, in some areas, the breadth and depth of the proposed requirements could impose burdens and challenges for even the largest and most sophisticated entities in scope of the requirements. This could lead to an excessively broad reporting focus and in turn undermine investors' ability to identify truly decision-useful information. We therefore recommend that EFRAG re-evaluates whether some of the more detailed requirements could instead be framed as recommendations or guidance (which aligns with the approach taken by the Global Reporting Initiative (GRI)).

While we cannot expect companies to report fully consistent and comparable data in the initial implementation phase, IIGCC calls for EFRAG and EU policymakers to uphold ambition to better

[4] IIGCC's Investor Expectations for Paris-aligned Accounts for more information, available here.

support the information needs of investors and other stakeholders across the investment chain. To assist preparers, IIGCC suggests that EFRAG could initially take a more flexible approach in relation to complex, quantitative disclosures (or for topics where data remains incomplete) during the 'bedding-in' period (while prioritising disclosures which will help investors and market participants to meet their own reporting obligations). For example, requirements for reporting entities to explain why they have been unable to make quantitative disclosures in certain instances (e.g. due to data and or/methodological gaps) could be introduced. Where this is the case, qualitative information can be provided to plug gaps and provide narrative context. Firms should provide narrative disclosure on the nature of these gaps, why the firm has been unable to address them, and the steps the firm will take to address these gaps in future. Such an approach can help to drive improvements in the quality and quantity of quantitative disclosures, as well as providing users of reporting with a clearer view of any barriers to disclosure the reporting entity is facing.

Information necessary for assessment of impact ('double materiality'): Impact materiality should be the basis on which double materiality is integrated, given that sustainability impacts can become financially material over the short-, medium- and long-term. The definition of impact materiality should be more closely aligned with the GRI Standards, which are the most widely used and recognised global standards that apply a double materiality lens.

Information necessary for assessment of financial impact ('financial materiality'): To ensure global consistency, EFRAG should ensure its definition of financial materiality is consistent/interoperable with the definition established by the ISSB.

Consistency with international standards: IIGCC appreciates that interoperability does not, and should not, mean full consistency with wider standards, and we acknowledge that EFRAG must develop disclosure requirements that meet the specific needs of the EU's sustainability disclosure framework. However, as noted by ESMA earlier this year, it will be important to ensure EFRAG's standards do not unnecessarily depart from international sustainability reporting standards, given investors global horizons and holdings. Ongoing cooperation with relevant international bodies will therefore be essential to support investors in assessing their exposures to climate-related risks and opportunities across multiple jurisdictions.

Detailed response

Policies and targets

Transition plan disclosures

IIGCC supports requirements for in-scope firms to disclose transition plans that align with limiting global warming to 1.5°C. We recommend that EFRAG tightens the definition to ensure transition plans are compatible with a low/no overshoot scenario by 2050 (in line with the definition established by the IPCC and under recital 26 of the final Corporate Sustainability Reporting Directive (CSRD) agreement).

We are broadly supportive of the proposed approach to transition plan disclosures. However, we believe the disclosures could be further enhanced by incorporating the additional granular reporting requirements established under the Climate Action 100+ Net Zero Company Benchmark (CA100+ Benchmark).[5] The CA100+ Benchmark was developed to provide investors with robust and comparable information on how companies are aligning their business strategies and operations with the goals of the Paris Agreement and a net zero emissions future. It sets out three core components of a credible, sector-neutral transition plan:

- **Targets:** long-, medium- and short-term greenhouse gas (GHG) reduction targets on a clearly defined and comprehensive scope of emissions, aligned with the goal of limiting global warming to 1.5°C with low or no overshoot.[6]

- **Strategy for implementing transition plans and achieving targets:** the company should disclose the main measures it intends to take to achieve its overall targets, including how it will address operational emissions and align capex allocation with these targets (specifying any diversification into "green" (or taxonomy-aligned) capex). Implementation should be supported by appropriate corporate governance structures (see CA100+ Benchmark indicator 8 and TPI Management Quality indicators).[7]

[5] Climate Action 100+ Net Zero Company Benchmark, available here.
[6] We note that ESRS 1 (paragraph 83) defines short-, medium- and long-term horizons for reporting purposes as 1 year, 2-5 years, and >5 years respectively. IIGCC does not believe it is strictly necessary to define fixed ranges for reporting time horizons, noting that suitable timelines may vary between sectors, thereby necessitating an element of flexibility. In our view, time horizons should enable investors to assess climate targets against the trajectory of emissions pathways without being overly prescriptive. For example, we recommended that short-term time horizons should cover the expected tenure of the current management team, which will help ensure that climate targets during their term of service are consistent with what is required by the sectoral pathway and longer-term commitments. Medium-term horizons should encompass the actions required over the period up to 2035 to maintain ambition and alignment with the overall long-term trajectory.
[7] TPI Management Quality Framework indicators, available here.

- **External engagement:** engagement to support the creation of an enabling environment to accelerate progress towards a net zero future. This includes:
  - Paris-aligned lobbying and policy advocacy
  - Supply chain engagement
  - Consideration of the need for a 'just transition', assessing the impacts of transitioning to a lower-carbon business model on workers and communities
  - Corporate disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

IIGCC notes the proposed requirement to calculate and report "locked-in" emissions. This is a relatively new concept, and while well-intentioned, we are concerned that calculating these emissions, let alone interpreting the results, may be difficult in practice (and unlikely to be comparable/consistent across companies in the absence of further guidance). EFRAG should develop a more precise definition of "locked-in" emissions on this basis, and provide more detailed guidance on how to measure and disclose on these emissions (perhaps on a qualitative basis initially until methodologies mature). In general, IIGCC believes that reporting on capital allocation is a more effective way to approach this issue, as it can be benchmarked (in some circumstances) against normative standards.

Policies related to climate change mitigation and adaptation

IIGCC proposes that the disclosure requirements relating to policies adopted to meet the needs and expectations of wider stakeholders should include the additional granular disclosures set out above on external engagement.

Targets

We strongly support the requirements to disclose GHG emissions reduction targets that align with 1.5°C and agree that the proposed disclosures on targets should provide investors with decision-useful information on investee action to reduce emissions. These disclosures should also help investors with their reporting on principal adverse impacts under the Sustainable Finance Disclosure Regulation (SFDR). IIGCC also welcomes the requirements to exclude offsets and avoided emissions from emissions reduction targets, which should be considered as "beyond the value chain mitigation" measures, rather than a component of target-setting.

To support transition plan disclosures that align with 1.5°C, IIGCC recommends that reporting entities should be explicitly required to develop and disclose quantitative targets consistent with these disclosures. As noted above, targets should be based specifically on limiting global warming to 1.5°C with no or low overshoot.

IIGCC believes that the proposed emissions reduction target disclosures should also be underpinned by more specific, granular criteria, including the indicators established by the CA100+ Benchmark and the Net Zero Investment Framework Implementation Guide (the NZIF).[8] This should include long-term, medium-term and short-term targets for reducing GHG emissions on a clearly defined Scope of emissions. Companies should disclose the how the targets set are aligned with and informed by science-based net zero scenarios provided by robust and credible sources (such as the IPCC and the IEA), and how regional and/or sectoral science-based pathways have influenced the target. The following, supplementary criteria for target-setting should also be considered to ensure targets are comprehensive:

- Targets should cover all activities across all divisions, regions, equity stakes, and material emissions

- Targets can be based on absolute and/or intensity metrics but should indicate how an intensity target translates into absolute emissions, and vice versa

- Reporting entities should focus on reducing gross emissions; the total expected impact of measures to "net off" residual gross emissions should be reported

- Separate targets for operational emissions (Scope 1 and 2), which should imply reduction in emissions of 50% in absolute terms by 2030. Reporting entities should disclose their energy consumption to understand what these targets imply for the carbon intensity of consumption

- Separate Scope 3 targets, covering the most relevant Scope 3 emissions categories for the company's sector and disclosure of the methodology used to establish any Scope 3 target.

IIGCC also emphasises the need for a differentiated approach between the climate-related targets to be developed and disclosed by investors in scope of the reporting rules, and those to be made by companies operating in the real economy. Investors should set targets to increase the proportion of their assets that can be considered net zero or aligned to a net zero pathway over time, based on the key indicators highlighted above (e.g. targets, emissions performance against targets, decarbonisation strategy, capital allocation alignment) and undertake a set of actions that will drive improved performance at the asset-level and real economy emissions reductions in line with net zero. IIGCC recommends that investors seeking to align their portfolios with net zero should disclose the following targets in line with the TCFD framework, as currently set out in the disclosure section of the NZIF:

- The targets, and metrics associated with these targets, as set out in the NZIF including: portfolio emissions reduction targets (Scope 1 and 2) covering listed equity, fixed income, real estate, expressed in absolute or intensity terms (CO_2e/$mn invested). Scope 3 to be phased in over time and measured separately

[8] IIGCC Net Zero Investment Framework Implementation Guide, available here.

- A target for increasing the percentage of assets under management (AUM) invested in assets in material sectors that are i) net zero, or meeting criteria to be considered net zero ii) 'aligned' to a net zero pathway iii) 'aligning' to a net zero pathway

- A target for allocation to climate solutions representing a percentage of revenues or capital expenditure (capex) from AUM, where 'climate solutions' are defined in accordance with the EU Taxonomy mitigation criteria where possible

- A description of how these targets were calculated, and evidence and information that was used to inform the target setting process

- The science-based scenario(s) or pathway(s) used to guide target setting and assess the alignment of companies, including the name of the relevant model(s), and critical assumptions used

- The datasets or methodologies used to assess alignment of assets, and the extent to which these are consistent with the key features of the methodologies

- Proportion of financed emissions under active engagement

- Performance against targets over time, and any updates or adjustments to targets that are relevant.

Climate change mitigation and adaptation action plans and resources

IIGCC proposes that more detail is needed on how companies will implement their transition plans and achieve their targets in practice. In line with CA100+ Benchmark indicators 5 and 6, we suggest EFRAG includes the following disclosure requirements under E1-4:

- Decarbonisation strategy – a quantified decarbonisation strategy to meet long and medium-term GHG reduction targets, which clearly refer to main sources of GHG emissions (including Scope 3 where applicable). The strategy can include a commitment to 'green revenues' from low carbon products and services (e.g. those that align with the EU Taxonomy)

- Capital allocation alignment - Paris-aligned capex allocation and disclosure of the methodology used to align capex with decarbonisation goals.

The proposed standards could also elaborate further on adaptation plan disclosure requirements. In the same way that Paris-alignment should promote emissions reductions in the real economy, IIGCC advocates for investors and companies to take action to manage physical risk in a way that creates resilience benefits for wider society. We have worked with investors to develop a set of expectations of companies in relation to physical risks and opportunities, which sets out actions investor can take to improve the availability of physical climate-related data and ensure investees take action to address risks and build climate resilience.[9] IIGCC would welcome the development of additional disclosure standards and guidance that would enable companies and investors to implement these components as part of their wider climate-related strategy in a way that is appropriate for their organisations.

We recognise that, at present, there is little available guidance or established best practice on the key components of climate adaptation plans and climate resilience strategies, or on relevant metrics for measuring impact on resilience goals. However, such guidance is likely to emerge in the coming years as adaptation becomes a more prominent focus, and companies should start building capacity in this area to the extent possible. IIGCC proposes that a climate adaptation strategy could cover:

- A demonstration of board responsibility and accountability for physical climate risks and resilience, including relevant director expertise and experience
- How a company plans to effectively manage, monitor, and report on physical climate risks and build climate resilience
- The information, policy, financial, and legal strategies a company has in place to manage and respond to material physical risks to maintain business continuity and rebound following physical impacts
- The costs of such actions, including insurance coverage, opex, and capex to respond to these risks
- How the company has assessed, and contributes to, the resilience goals of the local region and/or national government and how it has worked in partnership with local stakeholders, employees, and others potentially impacted by the company's operations
- How the company identifies new opportunities to provide adaptation solutions (revenues)
- Capital deployment (capex; opex) for climate resilience within company operations.

Energy consumption and mix

IIGCC welcomes the detailed disclosure requirements on energy consumption, which are highly relevant for investors reporting on the Principal Adverse Impacts of their investments under SFDR. IIGCC proposes that EFRAG ensures that the definitions of "renewable energy sources" and "non-renewable energy sources", including their respective breakdowns, are aligned with the definitions established by SFDR to support coherency with the wider EU sustainable finance framework.

To enable benchmarking of energy consumption intensity, it will be important to ensure that energy consumption figures reported by companies are consistent with their GHG emission disclosures. This will necessitate consistent boundaries for assessment which can be separated into Scope 1 (fuel) and

[9] Building Resilience to a Changing Climate: Investor Expectations of Companies on Physical Risks and Opportunities, available here.

Scope 2 (electricity and heat) disclosures.

In addition to the proposed disclosures, we would welcome reporting requirements that can enable investors to track company-level energy efficiency (noting that a degree of flexibility will be necessary to allow companies to select metrics most appropriate for their sector).

GHG emissions

IIGCC welcomes the requirement to specify emissions disclosure in general, but makes the following observations on the proposed requirements:

- Scope 1 and 2 emissions footprint should be consistent with the boundary used for energy disclosure to enable the calculation of GHG emissions of energy consumption (as outlined above). IIGCC believes this could be a very important metric to benchmark companies current and target emissions outside emission intensive sectors

- There is growing evidence that Scope 2 market-based emissions that include the use of renewable energy certificates (RECs) are not fit for purpose,[10] yet they are relevant to include and incentivise power purchase agreements in accounting. IIGCC would recommend that Scope 2 accounting either specifies the contribution of RECs in market-based accounting, or otherwise enables investors to discern a more credible measure of Scope 2

- Companies should aim to calculate Scope 3 emissions broken down by category, prioritising the most material emissions by category

- Companies should aim to disclose "underlying" annual change in emissions, stripping out the impact of M&A and/or use of offsets to reduce emissions across Scopes 1 and 2 emissions, and separately, Scope 3 emissions

- IIGCC does not see a significant value in turnover-based emissions intensity metrics.

We also note that the requirements stipulate that companies should consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard when compiling information relevant for GHG reporting (as well as GRI 305). Given that the GHG Protocol is the most widely used and recognised emissions accounting standard, IIGCC recommends that companies should be required to use the GHG Protocol to calculate and report Scope 1, 2 and 3 emissions. This will enhance the comparability and consistency of emissions reporting, as well as support interoperability with the ISSB standards (which mandates its use).

[10] See 'Renewable energy certificates threaten the integrity of corporate science-based targets' for more information, available here.

Financial effects

Potential financial effects from material physical risks

IIGCC welcomes the specific focus on disclosures relating to physical risk exposures, rather than more general references to climate-related risks. The identification and disclosure of physical risks continues to be a key gap in company reporting, and greater availability of information on these risks will support investment decision-making and enhance long-term value. Additionally, we acknowledge and support the alignment with the physical risk-related disclosures set out in the ISSB's Climate Exposure Draft.

The disclosure requirements do not make clear what constitutes a 'material' physical risk. Entities should disclose how materiality is defined and critical thresholds to differentiate between 'tolerable' and 'intolerable' level of risk (for both the physical and transition categories).

In addition to the disclosures required under paragraph 65, IIGCC recommends that reporting entities also disclose the following information on their physical risk exposures, as set out in IIGCC's Investor Expectations of Companies on Physical Risks and Opportunities:

- Physical asset registers, and disclosure of the location of these assets. Companies should also maintain an inventory of current and future climate-related risks in relation to those assets, with particular attention on major value chain assets
- Financial impacts of recent weather events
- Future anticipated physical risks from climate change.

To support the double materiality approach, IIGCC also recommends that companies should report on the impacts of their activities on climate adaptation and resilience goals, alongside measuring the financial impact of physical climate risk on the entity. This should include the development and disclosure of climate adaptation strategies, as outlined further above. The potential financial effects from material physical risks must be fully integrated into the financial statements (see comments below on integrating material climate-related risks and opportunities into the financial accounts for more information).

Potential financial effects from material transition risks

IIGCC emphasises the need to define 'material' transition risks, to broaden the scope beyond financial impacts in line with the CSRD's double materiality approach, and for the full integration of these financial effects into the financial statements.

Potential financial effects from climate-related opportunities

We broadly support the disclosure requirements for climate-related opportunities and welcome the links made to EU Taxonomy (although this could be made more explicit, particularly in relation to disclosures on low carbon products and services). For example, assessments of the potential market size for low carbon products and services or adaptation solutions does not provide investors with information about reporting entities' capacity to invest in such products, services and solutions. IIGCC notes that the standards suggest that information on market size may be put in perspective to the reporting entity's current taxonomy-aligned turnover. We suggest disclosures on taxonomy-aligned turnover (as well as capex and opex, which provide useful forward-looking information on planned investment in green solutions) are mandated within the standard to address this issue. This will strengthen the links between the reporting standards and the EU Taxonomy Regulation and enhance clarity over companies' appetite and actions to pursue climate-related opportunities.

IIGCC also proposes that, to uphold consistency with the approach taken for climate-related risks, and to provide investors with much-needed granularity, disclosures on opportunities are also separated out to account for transition and physical opportunities (and broken down clearly where companies are exposed to multiple opportunities). For example, in IIGCC's 'Building Resilience' publication, we set out investors' expectations of companies in relation to enhanced disclosures on physical climate opportunities, which should include reporting on capex, opex and revenues associated with adaptation activities and solutions (such as building retrofits or upgrading equipment). Where relevant, disclosure of the amount (e.g. revenue in EUR) and the percentage of revenues exposed to transition and physical opportunities would also help to support investor decision-making.

IIGCC feedback on wider topics in ESRS E1

Level of detail/granularity

IIGCC has consistently emphasised the importance of detailed, consistent and comparable climate-related disclosures to support investors' information needs. We therefore welcome the level of granularity set out in EFRAG's proposed climate disclosures, which should help our members and the wider investment community to assess their exposures to climate-related risks and opportunities and the credibility of investee transition plans. We also welcome the clear links to wider sustainable finance regulations such as the EU Taxonomy and the SFDR, which will enable investors to meet their own reporting obligations under these regulations.

However, in some areas, the breadth and depth of the proposed requirements could impose burdens that we encourage EFRAG to consider carefully. The level of detail and granularity of the disclosures will likely present challenges for even the largest and most sophisticated entities in scope (let alone the wider range of companies to be scoped in under the CSRD). This could also lead to an excessively broad reporting focus (if everything to be disclosed is considered 'material') and in turn undermine investors ability to identify truly decision-useful information. We therefore recommend that EFRAG re-evaluates whether some of the more detailed requirements could instead be framed as recommendations or guidance (which aligns with the approach taken by GRI). At a high-level, IIGCC proposes that the following topics are maintained as mandatory disclosures, given their decision-usefulness for investors and their links to wider EU sustainable finance regulations:

- Transition plans for climate change mitigation (E1-1)
- Measurable targets for climate change mitigation and adaptation (E1-3)
- Climate change mitigation and adaptation action plans and resources (E1-4)
- Energy consumption and mix (E1-5)
- Scope 1, 2 and 3 GHG emissions (E1-7 – E1-10)
- Taxonomy Regulation for climate change mitigation and climate change adaptation
- Potential financial effects from material physical risks, material transition risks and climate-related opportunities (E1-15 – E1-17)
- Information needed by investors to meet their reporting obligations under SFDR.

Additionally, an element of flexibility should be introduced where reporting entities are legitimately unable to source relevant data (e.g. from companies within their value chain). While the implementation of robust and comprehensive sustainability disclosure standards will help to address this challenge, there may still be gaps during the 'bedding in' period. In line with best practice, approximations and estimates are unlikely to provide a suitable alternative to publicly disclosed data, and could lead to misleading, inconsistent and inaccurate reporting that could negatively impact investment decisions and capital allocation. We therefore suggest that EFRAG allows for omission of data (at least during the initial implementation phase) where the case for such omissions is legitimate, under very specific circumstances (e.g. datasets are unavailable or incomplete). Where this is the case, reporting entities should be required to explain where and why they have not been able to disclose, as well as the steps they will take to improve the completeness and the quality of disclosure.

Integration of material climate-related risks and opportunities into the financial accounts

IIGCC emphasises the need for the financial impacts of climate-related risks to be fully integrated into the financial statements, as well as the management report, in line with guidance from the International Accounting Standards Board (IASB) and a growing number of regulators, including the European Securities Market Authority. At present, there is limited guidance in ESRS 1 on how companies in scope of the reporting requirements can ensure connectivity between the management report and the financial statements.

Investors have explicitly set out their expectation that material climate considerations – including those associated with a transition to a 1.5 °C pathway – are visible in companies' financial statements. For further detail on precisely what disclosures investors are seeking, please refer to IIGCC's Investor Expectations paper for Paris-aligned Accounts.[11] This document set out the context and rationale for investor expectations, and the following five disclosures expected from preparers:

- Board Affirmation that a 2050 net zero pathway has been considered in drawing up the accounts

- Adjustments to critical assumptions and estimates: an explanation for how critical accounting judgments are consistent with net zero carbon emissions in 2050. If directors choose not to use Paris-aligned assumptions, they must explain why in the Notes to the accounts

- Sensitivity analysis: if the directors have chosen not to use Paris-aligned assumptions in their core accounts, they should provide sensitivity analysis in the Notes of how Paris-aligned assumptions would impact the reported financial statements

- Dividend resilience: implications for dividend paying capacity of Paris-alignment (e.g. threshold assumptions that would trigger cuts to dividends). This is particularly important where companies have not used Paris-aligned assumptions in their core accounts

- Consistency: affirmation by Board of consistency between narrative reporting on climate risks and the accounting assumptions, or an explanation for any divergence.

[11] IIGCC's Investor Expectations for Paris-aligned Accounts for more information, available here.

Cross-sector comparability

IIGCC believes that the proposed standards will help to foster comparability of disclosures across sectors. In line with our comments above, inclusion of the disclosure indicators established by the CA100+ Benchmark within the disclosure requirements will enhance the comparability of transition plan disclosures on a cross-sector basis.

Information necessary for assessment of impact ('double materiality')

IIGCC fully supports the double materiality lens applied in the ESRS standards. We agree that impact materiality should be the basis on which double materiality is integrated, given that sustainability impacts can become financially material over the short-, medium- and long-term. Impact materiality disclosures will also support investors in meeting their own reporting requirements (including principal adverse impact disclosures under SFDR).

To further support interoperability of disclosures, we suggest the definition of impact materiality is more closely aligned with the GRI Standards, which are the most widely used and recognised global standards that apply a double materiality lens. Where standards and disclosures are fully consistent with the GRI Standards, signposting could help speed up implementation, where such disclosures are already being made in compliance with GRI.

Information necessary for assessment of financial impact ('financial materiality')

To ensure consistency with global sustainability disclosure frameworks, and to support the consistent application of financial materiality across multiple jurisdictions, we recommend that EFRAG ensures its definition of financial materiality is consistent/interoperable with the definition established by the ISSB. This would help to support a 'building blocks' approach to sustainability disclosures, where a common global baseline for sustainability reporting on issues that are material to enterprise value are built on with disclosure requirements that seek to go further (e.g. by incorporating a double materiality perspective).

Consistency with relevant EU policies/wider EU legislation

IIGCC emphasises the critical importance of ensuring the standards EFRAG is developing are able to meet investor' information needs and support their own reporting requirements (particularly in relation to the EU Taxonomy and SFDR). The EU's various sustainability disclosure rules must be fully coherent to support the flow of information across the investment chain, which requires full alignment and consistency between disclosures to be made by companies, and those to be made by investors. We therefore recognise and welcome EFRAG's efforts to ensure all SFDR principal adverse impact indicators are covered by the proposed disclosure requirements and the clear links to the Taxonomy set out in the proposed climate disclosures (although Taxonomy-related disclosures could be enhanced in certain areas, as highlighted above).

Where the standards refer to sustainability due diligence and actions across the value chain, it will be important to ensure consistency with the requirements to be developed under the Corporate Sustainability Due Diligence Directive (CSDD) as well as the CSRD (including consistent definitions of what constitutes a 'value chain' for reporting purposes). As noted in the CSDD proposal, corporate disclosure under CSRD will cover the last step of the due diligence duty for companies that are in scope of both Directives. Upholding consistency between EFRAG's standards and the CSDD will therefore be vital to ensure companies in scope of the CSDD are effectively able to implement their due diligence frameworks and processes, and identify and mitigate relevant environmental adverse impacts. This is also important in the context of proposed requirements under CSDD Article 15 for certain companies to adopt transition plans that align with a 1.5°C world (which clearly links to the transition plan disclosure requirements under CSRD).

Consistency with international standards

As noted above, IIGCC encourages EFRAG to review its definitions of financial and impact materiality to support interoperability with the ISSB and GRI standards respectively. We appreciate that interoperability does not, and should not, mean full consistency with wider standards, and acknowledge that EFRAG must develop disclosure requirements that meet the specific needs of the EU's sustainability disclosure framework (including disclosures that support investors' reporting requirements and the need for a double materiality lens). However, as noted by ESMA earlier this year, it will be important to ensure EFRAG's standards do not unnecessarily depart from international sustainability reporting standards. Investors have global horizons and holdings, and should be able to reconcile, to the extent possible, the reporting published by their EU investees with investees operating outside the EU. IIGCC recommends that EFRAG engages with ISSB, GRI and other relevant standard setters to undertake a mapping exercise of the climate-related disclosure requirements across these standards. This could help to increase transparency over topics and disclosure requirements where convergence can be attained/improved, as well as areas where the standards diverge and potential future actions to promote further interoperability.

Ongoing cooperation with IOSCO, the ISSB and other relevant international bodies will therefore be essential to ensure that the EU reporting regime is able to support the information needs of investors operating across multiple jurisdictions. It is in this context that we recognise and support the Statement of Cooperation between EFRAG and GRI published last year, and encourage EFRAG to continue working closely with standard setters (and vice versa) to support comparability and interoperability of sustainability disclosures.

Disclaimer: *This response was developed in collaboration with a number of IIGCC members but does not necessarily represent the views of the entire membership, either individually or collectively.*