



COMPARISON: EFRAG DRAFT ESRS AND EUROPEAN COMMISSION'S DRAFT DELEGATED ACT (DA) – ESRS E5 RESOURCE USE AND CIRCULAR ECONOMY

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DISCLAIMER

This paper below contains the EFRAG draft **ESRS E5 Resource use and Circular Economy** which has been modified in track changes to match the version the EC proposed in the DA.

This document does not represent Accountancy Europe's views or analysis of these changes. It is a comparison run automatically by IT tools (including WordCompare) available to us. It is an Accountancy Europe's working document in view of preparing our feedback to their EC draft delegated act with the first set of European Sustainability Reporting Standards (ESRS).

Accountancy Europe makes this document available to help other stakeholders understand the detailed changes of the standards and help them in their own feedbacks to the European Commission.

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Objective

1. The objective of this ~~[draft]~~ Standard is to specify Disclosure Requirements which will enable users of the ~~sustainability statements~~ **statement** to understand:
 - (a) how the undertaking affects resource use, including resource efficiency, avoiding the depletion of ~~non-renewable~~ resources and the ~~regenerative production~~ sustainable sourcing and use of renewable resources (referred to in this ~~[draft]~~ Standard as “resource use and circular economy”) in terms of material positive and negative actual or potential impacts;
 - (b) any **actions** taken, and the result of such actions, to prevent or mitigate actual or potential ~~material~~ negative impacts arising from resource use ~~and circular economy~~, including its measures to help decoupling its economic growth from the use of materials, and to address risks and opportunities;
 - (c) the plans and capacity of the undertaking to adapt its strategy and business model~~(s)~~ in line with **circular economy principles** including but not limited to minimising **waste**, maintaining the value of products, materials and other resources at their highest value and enhancing their efficient use in production and consumption;
 - (d) the nature, type and extent of the undertaking’s material risks and opportunities related to the undertaking’s impacts and **dependencies**, arising from resource use and circular economy, and how the undertaking manages them; and
 - (e) the **financial effects** on the undertaking over the short-, medium- and long-term time horizons of material risks and opportunities arising from the undertaking’s impacts and dependencies on resource use and circular economy.
2. This ~~[draft]~~ Standard sets out Disclosure Requirements related to “resource use” and “circular economy” and in particular on:
 - (a) **resource inflows** including the circularity of material resource inflows, considering renewable and non-renewable resources; and
 - (b) **resource outflows** including information on products and materials; and
 - (c) **waste**.
3. **Circular economy** means an economic system whereby in which the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising **waste** and the release of hazardous **substances** at all stages of their life cycle, including through the application of the **waste hierarchy**. The goal is to maximise and maintain the value of the technical and biological resources, products and materials by creating a system that allows for renewability, long life durability, optimal use or re-use, refurbishment, remanufacturing, **recycling** and biodegradation nutrient cycling.
4. This ~~[draft]~~ Standard ~~also~~ builds on existing relevant EU legislative frameworks and **policies** ~~which are referred to in this [draft] Standard including~~ the EU ~~Green Deal, Regulation (EU) 2019/2088 (SFDR), Regulation (EU) 2020/852 (the EU Taxonomy), EU Circular Economy Action Plan⁴ Plan~~, the Waste Framework directive and the EU industrial strategy.
5. To evaluate the transition from a “business as usual”, meaning an economy in which finite resources are extracted to make products that are used and then thrown away (“take-make-waste”), to a circular economic system, this ~~[draft]~~ Standard relies on the identification of the physical flows of resources, materials and products ~~physical flows used and generated~~ by the undertaking through Disclosure Requirement E5-4 *Resource inflows* and Disclosure Requirement E5-5 *Resource outflows*.

Interactions with other ESRS

6. Resource use ~~and circular economy~~ is closely connected to a major driver of other environmental ~~matters~~ impacts such as climate change, **pollution**, water and **marine resources** and biodiversity. A **circular economy** is a system that tends towards a sustainable use of resources in extraction, processing, production and consumption, and management of waste. Such system brings multiple environmental benefits, in particular, the reduction of material and energy consumption and **emissions** into the air (greenhouse gas emissions or other pollution), the

limitation of **water withdrawals** and **discharges** and the **regeneration** of nature limiting the impact on biodiversity.

7. ~~Thus, to~~To provide a comprehensive overview of which ~~aspects of~~ other environmental matters could be material to resource use and circular economy, relevant disclosure requirements are covered in other ~~[draft]~~ environmental ESRS as follows:
- (a) ~~[draft]~~ ESRS E1 *Climate change*, which addresses, in particular, GHG **emissions** and energy resources (energy consumption);
 - (b) ~~[draft]~~ ESRS E2 *Pollution*, which addresses, in particular, emissions to water, air and **soil** as well as **substances of concern**;
 - (c) ~~[draft]~~ ESRS E3 *Water and marine resources*, which addresses, in particular, water resource (water consumption) and marine resources; and
 - (d) ~~[draft]~~ ESRS E4 *Biodiversity and ecosystems*, which addresses, in particular, ecosystems and species and raw materials.
8. ~~This [draft] Standard covers an environmental topic, however as people benefit from nature, the undertaking's impacts on nature affect~~The undertaking's impacts related to resource use and circular economy, in particular impacts related to **waste**, can affect people and communities. Material negative impacts on **affected communities** from resource use and **circular economy related impacts** attributable to the undertaking are covered in ~~[draft]~~ ESRS S3 *Affected communities*. The efficient and circular use of resources also benefits competitiveness and economic wellbeing
- ~~1. —~~This ~~[draft]~~ Standard should be read in conjunction with ~~[draft]~~ ESRS 1 *General requirements* and ~~[draft]~~ ESRS 2-*General disclosures*.
- 9.

Disclosure Requirements

ESRS 2 General disclosures

10. The requirements of this section should be read in conjunction with and reported alongside the disclosures required by ~~[draft]~~ ESRS 2 chapter 4 *Impact, risk and opportunity management*.

Impact, risk and opportunity management

Disclosure Requirement related to ~~[draft]~~ ESRS 2 IRO-1 – Description of the processes to identify and assess material resource use and circular economy-related impacts, risks and opportunities

11. The undertaking shall describe the process to identify material **impacts, risks** and **opportunities** related to resource use and circular economy, in particular regarding **resource inflows, resource outflows and waste**, and shall provide information on:
- (a) the methodologies, assumptions and tools used to screen its assets and activities in order to identify its actual and potential **impacts, risks and opportunities** in its own operations and value chain;
 - (b) the interconnection between risks and opportunities arising from impacts and **dependencies**;
 - (c) the process for conducting consultations ~~and~~, in particular, with affected communities.

Impact, risk and opportunity management

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

12. The undertaking shall ~~disclose~~describe its policies ~~implemented to manage~~address the management of its material impacts, risks and opportunities related to resource use and circular economy.

13. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has **policies** that address the identification, assessment, management and/or **remediation** of its material **impacts, risks** and **opportunities** related to resource use and **circular economy**.
14. The ~~summarised description of the policy disclosure required by paragraph 12~~ shall contain the information ~~required on the policies the undertaking has in [draft] place to manage its material impacts, risks and opportunities related to resource use and circular economy in accordance with ESRS 2 DCMDR-P Policies adopted to manage material sustainability matters.~~
15. In the summary, the undertaking shall indicate whether and how its **policies** address the following matters where material:
 - ~~(a) transitioning away from extraction use of virgin non-resources, including relative increases in use of secondary (recycled) resources;~~
 - ~~(a)(b) sustainable sourcing and use of renewable resources;~~
 - ~~(a) securing and contributing to the regenerative production of renewable resources and the regeneration of ecosystems they are part of.~~
16. Policies shall address material impacts, risks and opportunities in its own operations and along the upstream and downstream value chain.

Disclosure Requirement E5-2 – Actions and resources related to resource use and circular economy

17. **The undertaking shall disclose its resource use and circular economy actions and the resources allocated to their implementation.**
18. The objective of this Disclosure Requirement is to enable an understanding of the key **actions** taken and planned to achieve the resource use and circular economy-related **policy objectives and targets**.
19. The description of the resource use and circular economy-related ~~action~~**actions** and resources allocated shall follow the principles defined in ~~[draft] ESRS 2 DCMDR-A Actions and resources in relation to material sustainability matters.~~
20. In addition to ~~[draft] ESRS 2 DCMDR-A~~, the undertaking ~~shall~~**may** specify whether and how an action and resources cover:
 - ~~(b) any of the layers of the waste hierarchy as defined in Appendix A of this [draft] Standard;~~
 - ~~(a) more detailed higher levels of resource efficiency in use of technical and biological materials and water, particularly in relation to critical raw materials and rare earths as listed in the Raw Materials Information System;~~
 - ~~(b) higher rates of use of secondary raw materials (recyclates);~~
 - ~~(a)(c) application of circular economy strategy throughout the value chain of the design, leading to increased product: Refuse, Rethink, Reduce, **durability** and optimization of use, and higher rates of: Reuse, Repair, Refurbish/Refurbishing, Remanufacture and Repurpose), Recycle.³Repurposing and Recycling.~~
 - ~~(d) The disclosure shall also include a description of the actions, including circularity measures, application of circular business practices such as (i) value retention **actions** (maintenance, repair, refurbishing, remanufacturing, component harvesting, upgrading and reverse logistics, closed loop systems, second-hand retailing), (ii) value maximisation actions (product-service systems, collaborative and sharing economy business models), (iii) end-of-life actions (**recycling**, upcycling, extended producer responsibility), and (iv) systems efficiency actions (industrial symbiosis);~~
 - ~~(e) actions taken to prevent **waste** generation in the undertaking's upstream and downstream value chain and to manage material impacts arising from waste generated~~
 - ~~(b)(f) Optimisation of **waste management** in line with the **waste hierarchy**.~~

Metrics and targets

Disclosure Requirement E5-3 – Targets related to resource use and circular economy

21. The undertaking shall disclose the resource use and circular economy-related targets it has ~~adopted~~set.
22. The objective of this Disclosure Requirement is to enable an understanding of the **targets** the undertaking has adopted to support its resource use and **circular economy policy** and to ~~address~~address its material impacts, risks and opportunities.
23. The description of the **targets** shall contain the information requirements defined in ~~[draft]~~ ESRS 2 ~~DCMDR-T~~ Tracking effectiveness of policies and actions through targets.
24. The disclosure required by paragraph ~~22-21~~ shall indicate whether and how ~~it~~the undertaking's **targets** relate to **resource inflows** and **resource outflows**, including **waste** and products and materials, ~~(including in production, use phase and at end of functional life) and~~and, more specifically to:
 - (a) the increase of circular product design (including for instance ~~product design~~design for durability, dismantling, reparability, recyclability etc);
 - (b) the increase of **circular material use rate**;
 - (c) the minimisation of virgin non-renewable raw material;
 - (e) ~~sustainable sourcing and use (in line with possibly targets for virgin non-renewable raw material and targets for virgin renewable raw material~~;
 - (e)(d) ~~the reversal of the depletion of the stock~~cascading principle) of renewable resources;
 - (d)(e) the waste management, including preparation for proper treatment; and
 - (e)(f) other targetsmatters related to resource use or circular economy.
25. The undertaking shall specify to which layer of the **waste hierarchy** the target relates.
26. In addition to ~~[draft]~~ ESRS 2 ~~DCMDR-T~~, the undertaking ~~shall~~may specify whether ~~(local)~~ **ecological thresholds** and entity-specific allocations were taken into consideration when setting **targets**. If so, the undertaking ~~should~~may specify:
 - (a) the ecological thresholds identified, and the methodology used to identify such thresholds;
 - (b) whether or not the thresholds are entity-specific and if so, how they were determined; and
 - (c) how responsibility for respecting identified ecological thresholds is allocated in the undertaking.
27. The undertaking shall specify as part of the contextual information, whether the **targets** it has ~~adopted~~set and presented are mandatory (based on legislation) or voluntary ~~and if and how such legal requirements were taken into account when considering ecological thresholds~~.

Disclosure Requirement E5-4 – Resource inflows

28. The undertaking shall disclose information on its ~~material~~ resource inflows related to its material impacts, risks and opportunities.
29. The objective of this Disclosure Requirement is to enable an understanding of the resource use in the ~~course of the~~ undertaking's own operations and value chain.
30. The disclosure required by paragraph ~~29-28~~ shall include a description of its **resource inflows** where material ~~inflows~~: products (including **packaging**) and materials, (specifying critical raw materials and rare earths), water and property, plant and equipment used in the undertaking's own operations and along the value chain.

[A new Circular Economy Action Plan \(europa.eu\)](https://european-council.europa.eu/media/en/press-communications/infographic/infographic-new-circular-economy-action-plan-2023-2025-1000x500.pdf)

31. ~~For undertakings for which~~When an undertaking assesses that resource inflows ~~are~~ a material and those active in one of “key products value chain”, as defined in sustainability matter, it shall disclose the EU Circular Economy action plan⁴, following information about the undertaking shall include materials used to manufacture the undertaking’s products and services during the reporting period, in tonnes or kilo, at the reporting period kilograms:
- (a) the overall total weight of products and technical and biological materials used during the reporting period;
 - (b) ~~the weight in both absolute value and the percentage of renewable input~~biological materials ~~from regenerative sources~~(and biofuels used for non-energy purposes) used to manufacture the undertaking’s products and services (including **packaging**); that is sustainably sourced, with the information on the certification scheme used and on the application of the cascading principle; and
 - (c) the weight in both absolute value and percentage, of non-virgin reused or recycled components, intermediary products and materials ~~(non-virgin)~~ used to manufacture the undertaking’s products and services (including packaging).
32. The undertaking shall provide information on the methodologies used to calculate the data. It shall specify whether the data is sourced from direct measurement or estimations, and disclose the key assumptions used.

Disclosure Requirement E5-5 – Resource outflows

- ~~2. The undertaking shall disclose information on its material resource outflows, including waste.~~
33. ~~The objective of this Disclosure Requirements is, related to provide an understanding of its material impacts, risks and opportunities.~~
34. The objective of this Disclosure Requirement is to provide an understanding of:
- (a) how the undertaking contributes to the circular economy by i) designing products and materials in line with circular economy principles and ii) increasing or maximising the extent to which products, materials and **waste** processing are recirculated in practice after first use; and
 - (b) the undertaking’s waste reduction and waste management strategy ~~and~~, the extent to which the undertaking knows how its pre-consumer waste is managed in its own activities.

Products and materials

35. The undertaking shall provide a description of the key products and materials that come out of the undertaking’s production process and that are designed along circular principles, including **durability**, reusability, repairability, disassembly, remanufacturing, refurbishment, **recycling**, recirculation by the biological cycle, or ~~other~~ optimisation of the use of the resource product or material through other circular business models.
36. ~~The undertaking~~Undertakings for which outflows are material and those active in one of “key products value chain” as defined in the EU Circular Economy action plan⁵, shall provide information at the reporting period and disclose:
- (a) ~~the total weight (tonnes) and percentage of materials that come out of the undertaking’s products and services production process (including packaging) that have been designed along circular principles:~~
 - i. ~~The expected~~ **durability**;
 - ii. ~~reusability~~;
 - iii. ~~repairability~~;
 - iv. ~~disassembly~~;
 - v. ~~remanufacturing or refurbishment~~;
 - vi. ~~recycling~~;
 - vii. ~~recirculation of the products placed on the market by the biological cycle~~;

- (a) ~~other potential optimisation of undertaking, in relation to the industry average for each product and material use; and group;~~
- (b) ~~the weight and percentage of products and materials that come out of the undertaking including packaging that, even if they do not meet the requirement required by paragraph 35(a), are designed to enhance/enable circular economy for customers further down the value chain.~~

(b) The reparability products, using an established rating system, where possible;

(c) The rates of recycled content in products and their **packaging**.

Waste

37. The undertaking shall disclose the following information on its total amount of **waste** ~~enfrom~~ its own operations at the reporting period ~~own operations~~, in tonnes or kilograms:

- (a) the total amount of waste generated;
- (b) ~~for each type 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, with a breakdown between **hazardous waste** and non-hazardous waste. The recovery operation types to be reported on are:
 - i. preparation for reuse;
 - ii. **recycling**; and
 - iii. other recovery operations;
- (c) ~~for each type of hazardous and non-hazardous waste~~, the amount by weight directed to disposal by waste treatment type and the total amount summing all three types, with a breakdown between **hazardous waste** and non-hazardous waste. The waste treatment types to be disclosed are:
 - i. **incineration**;
 - ii. landfill; and
 - iii. other disposal operations;
- (d) the total amount and percentage of non-recycled waste⁶⁷.

38. When disclosing the composition of the **waste**, the undertaking shall specify:

- (a) the waste streams, relevant to its sector or activities (e.g., tailings for the undertaking in the mining sector, electronic waste for the undertaking in the **consumer** electronics sector, or food waste for the undertaking in the agriculture or in the hospitality sector); and
- (b) the materials that are present in the waste (e.g., biomass, metals, non-metallic minerals, plastics, textiles, critical raw materials and rare earths).

39. 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/Euratom⁶⁸.

40. The undertaking shall provide contextual information on the methodologies used to calculate the data and in particular the criteria and assumptions used to determine and classify products designed along circular principles under paragraph ~~37(a)-35~~. It shall specify whether the data is sourced from direct measurement or estimations; and disclose the key assumptions used.

Disclosure Requirement E5-6 – Potential Anticipated financial effects from material resource use and circular economy-related impacts, risks and opportunities

41. The undertaking shall disclose ~~its potential~~ the anticipated financial effects of **material risks and opportunities** arising from resource use and circular economy-related impacts.

42. The information required by paragraph 41 is in addition the information on current financial effects on the entity's financial position, financial performance and cash flows for the

reporting period required under ESRS 2 SBM-3 para 48 (d). The objective of this Disclosure Requirement is to provide an understanding of: period required under ESRS 2 SBM-3 para 48 (d). The objective of this Disclosure Requirement is to provide an understanding of:

- (e) — **anticipated financial effects** due to material **risks** arising from **material** resource use and **circular economy**-related impacts and **dependencies** and how these risks ~~may have~~**have** ~~or could reasonably be expected to have~~ a material influence ~~(or are likely to have a material influence)~~ ~~on~~ ~~on~~ the undertaking's ~~cash flows, financial position, financial performance, position, development, cost of capital or access to finance~~ **performance, and cash flows** over the short-
- (a) ~~1-~~ **medium- and long-term time horizons**; and
- (b) ~~potential~~**anticipated** financial effects due to material opportunities ~~arising from resource use and circular economy-related material impacts and how the undertaking may financially benefit from material~~**to** resource use and circular economy-related ~~opportunities~~.

42-43. The disclosure shall include:

- (a) a quantification of the ~~potential~~**anticipated financial effects** in monetary terms ~~before considering resource use and circular economy-related actions, or where impracticable~~**not possible with undue cost or effort**, qualitative information. For **financial effects** arising from material opportunities, a quantification is not required if it would result in disclosure that does not meet the qualitative characteristics of information (see ~~[draft]~~ ESRS 1 Appendix C *Qualitative characteristics of information*);
- (b) a description of the effects considered, the impacts and dependencies to which they relate and the time horizons in which they are likely to materialise;
- (c) the critical assumptions used to quantify the **anticipated financial effects**, as well as the sources and level of uncertainty of those assumptions

3. — ~~In the context of this Disclosure Requirement, potential financial effects include financial effects that do not meet the recognition criteria for inclusion in the financial statement line items and notes to the financial statements.~~

⁶⁷ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts 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 (~~respectively~~ “Non-recycled waste ratio”).

~~⁷ This datapoint reflects information proposed under GRI 306.~~

⁶⁸ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts 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 (~~respectively~~ “Hazardous waste and radioactive waste ratio”).

Appendix A: ~~Defined terms~~Application Requirements

This appendix is an integral part of the ~~[draft]~~ ESRS E5. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of the ~~[draft]~~ standard.

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.
Business as usual	In the context of this [draft] Standard, business as usual is to be understood as a scenario where the undertaking does not take significant actions to shift away its business model from a linear economy, i.e., 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.
By-product	A substance or object resulting from a production process the primary aim of which is not the production of that substance or object is considered not to be waste, but to be a by-product if the following conditions are met: (a) further use of the substance or object is certain; (b) the substance or object can be used directly without any further processing other than normal industrial practice; (c) the substance or object is produced as an integral part of a production process; and (d) further use is lawful, i.e., the substance or object fulfils all relevant product, environmental and health protection requirements for the specific use and will not lead to overall adverse environmental or human health impacts.
Circular economy	An economic system whereby the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy.
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.
Circular material use rate	Recirculation of materials, components and products in practice after first use employing the following strategies (in order of preference): (i) maintenance/prolonged use; (ii) reuse/redistribution; (iii) refurbishment/remanufacturing; (iv) recycling, composting, or anaerobic digestion. The use rate is defined as the ratio of circular use of materials to overall use of materials.
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 means waste which displays one or more of the hazardous properties listed in Annex III of the Waste framework directive.
Incineration with (without) energy	Incineration is the controlled burning of waste at high temperature. It is with energy recovery when the energy created in the combustion process

recovery	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.
Landfill	A waste disposal site for the deposit of the waste onto or into land ⁹ .
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.
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.
Packaging	Products made of any materials of any nature 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 ¹⁰ .
Recovery	Any operation the principal result of which is waste serving a useful purpose by replacing other materials which would otherwise have been used to fulfil a particular function, or waste being prepared to fulfil that function, in the plant or in the wider economy. ¹¹
Recycling	Any recovery operation by which waste materials are reprocessed into products, materials or substances whether for the original or other purposes. It includes the reprocessing of organic material but does not include energy recovery and the reprocessing into materials that are to be used as fuels or for backfilling operations.
Regeneration	Promotion of self-renewal capacity of natural systems with the aim of reactivating ecological processes damaged or over-exploited by human action
Regenerative production	Regenerative production is an approach to managing agroecosystems that provides food and material — be it through agriculture, aquaculture or forestry — in ways that create positive outcomes for nature. These outcomes include, but are not limited to, healthy soils, improved air and water quality, and higher levels of carbon sequestration. They can be achieved through a variety of context-dependent practices and can together help regenerate degraded ecosystems and build resilience on farms and in surrounding landscapes.
Renewable materials	Material that is derived from 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.
Resource use optimisation	The design, production and distribution of 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.
Resource inflows	Resource that enters the organisation's infrastructure.
Resource outflows	Resource that leaves the organisation's infrastructure.
Reuse	Any operation by which products and components that are not waste are used again for the same purpose for which they were conceived ¹² . This

⁹ See art. 2 (g) of the Directive 1999/31/EC of the European Parliament and of the Council of 26 April 1999.

¹⁰ See art. 3 (1) of Directive 94/62/EC of the European Parliament and of the Council of 20 December 1994

¹¹ See art. 3 (15) of directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008

¹² See art. 3 (13) of the Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008.

	may involve cleaning or small adjustments so it is ready for the next use without significant definition.
Waste	Any substance or object which the holder discards or intends or is required to discard ¹³ .
Waste hierarchy	The waste hierarchy is the following priority order in waste prevention and management: (a) prevention; (b) preparing for re-use; (c) recycling; (d) other recovery, e.g., energy recovery; and (e) disposal ¹⁴ .
Waste management	The collection, transport, recovery and disposal of waste, including the supervision of such operations and the after-care of disposal sites, and including actions taken as a dealer or broker ¹⁵ .

¹³ See article 3(1) of the Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008

¹⁴ See art. 4 (1) of the Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008.

¹⁵ See art. 3 (9) of the Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008.

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ESRS 2 General disclosures

Impact, risk and opportunity management

Disclosure requirement related to ~~[draft]~~ ESRS 2 IRO-1 – Description of the processes to identify and assess material resource use and circular economy-related impacts, risks and opportunities

- AR 1. When conducting a **materiality** assessment on environmental subtopics, the undertaking shall assess the materiality of resource use and circular economy in its own operations and its value chain, and may consider the four phases below, also known as the LEAP approach, proposed by the Taskforce on Nature-Related Financial Disclosures:
- (a) Phase 1: locate where in the undertaking's own operations and along the value chain happen the interface with nature are the priority location stakes place;
 - (b) Phase 2: evaluate the resource use and circular economy related dependencies and impacts;
 - (c) Phase 3: assess the material risks and opportunities;
 - (d) Phase 4: prepare and report the results of the materiality assessment.
- AR 2. ~~The materiality assessment for [draft] With regard to ESRS E5 corresponds to, phases 1 and 2 rely mainly on the materiality assessments conducted under ESRS E1 (including energy consumption), ESRS E2 (pollution), ESRS E3 (marine resources, water consumption) and ESRS E4 (biodiversity, ecosystems, raw materials). Indeed, circular economy eventually aims at reducing the first three environmental impact of the use of products, materials and other resources, minimizing waste and the release of hazardous substances and hence at reducing impacts on nature. This application requirement focuses mainly on the third phases of this LEAP approach, while the fourth phase addresses the outcome of the process. Further guidance and materials about this approach can be found in TNFD Nature-Related Risk & Opportunity Management and Disclosure Framework.~~
- AR 3. The process to assess the **materiality of impacts, dependencies, risks and opportunities** shall consider the provisions in ~~[draft] ESRS 2 IRO-1 Description of the processes to identify and assess material impacts, risks and opportunities and IRO-2 Disclosure Requirements in ESRS covered by the undertaking's sustainability statement.~~
- AR 4. —The sub-topics related to resource use and circular economy covered by the **materiality** assessment ~~under this [draft] Standard~~ include:
- (a) resource inflows including the contribution to direct impact drivers (Resource circularity of material resource inflows, considering resource use other than water use or raw optimisation, intensity of materials (considered respectively under [draft] ESRS E3 and [draft] ESRS E4); products and renewable and non-renewable resources;
 - (b) dependencies on ecosystem resource outflows related to products and services; and
 - (c) waste, including hazardous waste and non-hazardous waste management.
- AR 5. —Under paragraph AR 1(a), the undertaking shall consider first locating where there are areas at risks for inflows, but also for outflows and in particular circular economy strategies and waste treatment in its own operations and along the value chain.
- ~~AR 6. Under paragraph AR 1(b) In Phase 2, the undertaking shall then consider evaluating impacts and dependencies. When disclosing information under paragraph AR 1, the undertaking may rely of inflows, outflows and waste based on primary, secondary or modelled data collection or the outcome of Phases 1 and 2 in other relevant approaches to assess material impacts, dependencies, risks environmental standards and evaluating on their own the outflows and opportunities.~~
- AR 7. Based on the results of Phase 1 waste and their pressure on nature.

Phase 3, the undertaking shall ~~finally~~ consider assessing ~~under paragraph AR 1(b)i~~ the material risks and opportunities by:

- (a) identifying **transition risks** and opportunities in its own operations and its ~~upstream and downstream value chain by the category~~, including the risk of staying in a business-as-usual **scenario**:
 - i. **policy** and legal, e.g., bans on the extraction and use of non-renewable resources; regulations on waste treatment;
 - ~~i.~~ ~~technology~~;
 - ~~ii.~~ ~~, e.g., introduction on the market~~;
 - ii. ~~reputation (of new technologies to replace existing use of raw products and materials)~~;
 - iii. market, e.g., shifting supply, demand and financing;
 - iv. reputation, e.g. changing societal, customer behaviors and perceptions.
- (b) identifying **physical risks** including depletion of stock and use of virgin and non-virgin renewable resources, ~~decrease of virgin and non-virgin renewable resources~~;
- (c) identifying opportunities categorised by:
 - i. resource efficiency: e.g., transition to more efficient services and processes requiring less resources, eco-design for **longevity**, repair, reuse, recycle, by-products, take-back systems, decoupling activity from extraction of materials, intensifying circular material use, creation of a system that allows for dematerialization (e.g., digitisation, improving utilization rates, weight reduction); practices to ensure products and materials are collected, sorted, and reused, repaired, refurbished, remanufactured;
 - ii. markets: e.g., ~~development of demand for~~ less resource-intensive products and services, ~~diversification of business activities, and~~ new business consumption models such as product-as-a-service, pay-per-use, sharing, leasing);
 - iii. financing: e.g., access to green funds, bonds or loans;
 - iv. resilience: e.g., diversification of resources and business activities (e.g., start a new business unit ~~on ecosystem regeneration to recycle new materials~~), investing in green infrastructures, adopting **recycling** and circularity mechanisms that reduce the **dependencies**, capability of the undertaking to safeguard future stocks and flows of resources; and
 - v. reputation.

~~AR 8. When assessing material impacts, risks and opportunities, the undertaking shall consider the sub-topics of resource use and circular economy:~~

- ~~(a) resource inflows as regards to the circularity of material resource inflows, considering separately renewable and non-renewable resources;~~
- ~~(b) resource outflows including products and materials and waste taking into account the waste hierarchy;~~
- ~~(c) resource use optimisation as regards the intensity of materials and products use;~~
- ~~(d) the creation of circular systems including cross value chain initiatives; and~~
- ~~(e) waste management (hazardous and non-hazardous wastes) while specifying the potential negative or beneficial other environmental impacts (climate change, water, pollution, biodiversity).~~

AR 97. The undertaking may consider the following methodologies to assess its impacts, risks and opportunities on its own operations and along its value chain: product including information provided by the EU Recommendation 2021/2279 on the use of the Environmental Footprint methods to measure and/or communicate the life cycle environmental performance of products and organizations (Annex I – Product Environmental Footprint; Annex III – Organisation Environmental Footprint (PEF, OEF),) and Material Flow Analysis (MFA), Life Cycle Assessment) from the European Environment Agency.

AR 408. When providing information on the outcome of the **materiality** assessment, the undertaking shall consider:

- (a) a list of business units associated to resource use and **circular economy** material impacts, risks and opportunities in the context of the products and services of the undertaking and the **waste** it generates;
- (b) a list and prioritisation of the material resources used by the undertaking;
- (c) the material impacts and risks of staying in business as usual;
- (d) the material opportunities related to a circular economy;
- (e) the material impacts and risks of a transition to a circular economy; and
- (f) the stages of the **value chain** where resource use, risks and negative impacts are concentrated.

Impact, risk and opportunity management

Disclosure Requirement E5-1 – Policies related to resource use and circulareconomy

AR 9. The policies described under this Disclosure Requirement may be integrated in broader environmental or sustainability policies covering different subtopics.

AR 4210. When providing information on its policies, the undertaking shall consider whether and how its policies address:

- (a) the **waste hierarchy**: (a) prevention; (b) preparing for re-use; (c) **recycling**; (d) other **recovery**, e.g., energy recovery; and (e) disposal. In this context, the **waste** treatment cannot be considered as a recovery;
- (b) the prioritisation of ~~strategies to avoid~~ the avoidance or ~~minimise~~ minimisation waste (~~Refuse, Rethink, Reduce~~, Re-use, Repair, Refurbish, Remanufacture and Repurpose) over waste treatment ~~strategies~~ (Recycling). The concepts of eco- design⁶⁹, waste as a resource or post- consumer waste (at the end of a **consumer-product** lifecycle), should also be taken ~~in~~ into consideration.

AR 4311. When defining its policies, the undertaking may consider the Paper on “Categorisation system for the circular economy”⁴⁹⁷⁰, which describes circular design and production models, circular use models, circular value **recovery** models and circular support along the principles of the nine **circular economy** “R” strategies or principles: refuse, rethink, reduce, re-use, repair, refurbish, remanufacture, repurpose and recycle.

⁴⁶ Source: TNFD, 2022, p.37

⁴⁷ Source: CDSB Biodiversity Application Guidance 2024

Disclosure Requirement E5-2 – Actions and resources in relation to resource use and circular economy

AR ~~14-12~~. When providing information under paragraph ~~17-17~~ and considering that resources are shared and that **circular economy** strategies may require collective actions, the undertaking may specify the **actions** taken to engage with its upstream and downstream **value chain** and/or its local **ecosystem network** on the development of collaborations or initiatives increasing the circularity of products and materials.

AR ~~15~~¹³. In particular, the undertaking may specify the following:

- (a) how it contributes to circular economy, including for instance smart **waste** collectionsystems;
- (b) the other **stakeholders** involved in the collective **actions**: competitors, **suppliers**, retailers, customers, other business partners, local communities and authorities, government agencies;
- (c) a description of the organisation of the project collaboration or initiative, including the specific contribution ~~of the of the~~ undertaking and the roles of the different stakeholders in the project: sponsors and other participants.

AR ~~16~~¹⁴. The **actions** may cover the undertaking's own operations and/or the value chain.

Metrics and targets

Disclosure Requirement E5-3 - Targets related to resource use and circulareconomy

AR ~~17~~. ~~When determining (local)-~~¹⁵. If the undertaking refers to **ecological thresholds** to set **targets**, ~~the undertaking it~~ may refer to the guidance provided by the Science-Based Targets Initiative for Nature (SBTN) in its interim guidance (Initial Guidance for Business, September 2020), or any other guidance with a scientifically acknowledged methodology that allows to set science-based targets by identifying ecological thresholds and, if applicable, organisation-specific allocations. Ecological thresholds can be local, national and/or global.

AR ~~16~~. AR ~~18~~. — When providing information on **targets**, the undertaking shall prioritise targets in absolute value.

AR ~~19~~. ~~The increased circular material use rate~~¹⁷. When providing information **targets** according to ~~be provided under paragraph 25(b) is to be understood as additional, i.e., based on the development of secondary material sources or~~ ~~24~~, the undertaking shall consider the production of circular phase, the use phase, and the end of functional life of products for example and materials.

AR ~~20~~: AR ~~18~~. When providing information on **targets** related to virgin renewable **raw material** under paragraph ~~25(c), 24(c)~~, the undertaking shall consider how those targets may impact **biodiversity loss**, also in light of ~~[draft]~~ ESRS E4.

AR ~~24~~¹⁹. The undertaking may disclose other **targets** under paragraph ~~25(f)~~^{24(f)} including in relation to sustainable sourcing. If so, the undertaking shall explain the definition of sustainable sourcing it has adopted and how it relates to the objective set out in paragraph ~~23~~²³.

AR ~~22~~²⁰. The **targets** may cover the undertaking's own operations and/or the value chain.

¹⁸ As established by the Directive 2009/125/EC

¹⁹ Categorisation system for the circular economy – Publications Office of the EU (europa.eu)

Disclosure Requirement E5-4 - Resource inflows

AR 21. Resource inflows may cover the following categories: IT equipment, textiles, furniture, buildings, heavy machinery, mid-weight machinery, light machinery, heavy transport, mid-weight transport, light transport and warehousing equipment. With regard to materials, resource inflow indicators

AR 24. ~~The list of “key products value chain” as defined in the EU Circular Economy²⁰ mentioned in paragraph 32 is the following:~~

- ~~(a) — electronics and ICT;~~
- ~~(b) — batteries and vehicles;~~
- ~~(c) — packaging;~~
- ~~(d) — plastics;~~
- ~~(e) — textiles;~~
- ~~(f) — construction and buildings; and~~
- ~~(g)(a) — food, water and nutrients.~~

include raw materials, **associated process materials**, and semi-manufactured goods or parts.

AR 22. When the undertaking is subject to paragraph ~~32, 31~~, it may also provide transparency on the materials that are sourced from **by-products/waste** stream (e.g., offcuts of a material that has not previously been in a product).

AR ~~26~~23. The denominator of the percentage indicator required under paragraphs ~~32(b) 31(b)~~ and ~~32(e) 31(c)~~ is the overall total weight of materials used during the reporting period.

AR ~~27~~24. 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”.

AR ~~28~~25. In cases where there is an overlap between categories of reused, recycled, **renewable categories overlap**, the undertaking shall specify how double counting was avoided and the choices that were made.

Disclosure Requirement E5-5 - Resource outflows

AR 26. Products and materials information to be provided under paragraph 35 refers to all materials and products that come out of the undertaking’s production process and that a company puts on the market (including **packaging**).

AR ~~30~~27. When compiling the percentage indicator rate, the undertaking shall use as denominator the overall total weight of materials used during the reporting period.

AR 31. ~~Products and services referred to in paragraph 37(b) may cover for instance:~~

- ~~(a) — prevention of waste and pollution by customers (e.g., smart waste collection system);~~
- ~~(b) — increase of the longevity of other products further down in the value chain;~~
- ~~(c) — increase recycling yield (quantity and quality) of products further down in the value chain (e.g., materials that separate adhesives from cardboard);~~
- ~~(d) — decrease the level of post-consumer waste.~~

AR ~~32~~28. The undertaking may also provide information on disclose its products and materials that are actually recirculated in practice through strategies described under paragraphs 37(a)i to 37(a)viii engagement in product end-of-life **waste management**, for example through extended producer responsibility schemes or take-back schemes.

AR-25

⁶⁹ As established by the Directive 2009/125/EC.

⁷⁰ Categorisation system for the circular economy - Publications Office of the EU (europa.eu)

²⁰ A new Circular Economy Action Plan (europa.eu)

- AR ~~33~~29. Type of **waste** is to be understood as **hazardous waste** or non-hazardous waste ~~for instance~~. Some specific waste, such as radioactive waste, may also be presented as a separate type.
- AR ~~34~~30. When considering the **waste** streams relevant to its sectors or activities, the undertaking may consider the list of waste descriptions from the European Waste Catalogue.
- AR 31. Examples of other types of **recovery** operations under paragraph ~~38(b)iii~~37(b)iii may be found in Annex II of the Waste framework directive.
- AR 32. Examples of other types of disposal operations under paragraph ~~38(c)iii~~37(c)iii may be found in Annex I of the Waste framework directive (dumping, open burning, or deep well injection for example).
- AR ~~37~~33. When providing contextual information under paragraph ~~41-40~~ the undertaking may:
- (a) explain the reasons for high weights of **waste** directed to disposal (e.g., local regulations that prohibit landfill 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.

Disclosure Requirement E5-6 – **Potential Anticipated** financial effects from **material** resource use and circular economy-related impacts, risks and opportunities

- AR ~~38~~34. When providing information under paragraph ~~43(b), 42(b)~~, the undertaking may illustrate and describe ~~the business model~~ how it intends to strengthen value retention.
- AR ~~39~~35. The undertaking may include an assessment of its related products and services at risk over the short-, medium- and long-term time horizons, explaining how these are defined, how financial amounts are estimated, and which critical assumptions are made.
- AR ~~40~~36. The quantification of the **potential material anticipated financial effects** in monetary terms under paragraph ~~44(a) 43(a)~~ may be a range.