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Update on Set 2 content and planning of sector standards

Objective

- 1 The objective of this paper is to:
 - (a) provide an update of the content of Set 2 on the basis of the final CSRD text;
 - (b) request approval from SRB members on the SR TEG proposal with regard to the work program for developing sector reporting standards; and
 - (c) request approval from the SRB to propose to the EFRAG DPC to shorten to 90 days the consultation period for Set 2.

Timing of Set 2

- 2 For the EC to be able to adopt the delegated acts by June 2024 at the latest, EFRAG will have to deliver the [draft] ESRS composing Set 2 by November 2023.
- 3 The working assumption for developing the work programme is that every year there will be a new set of standards with the same timeline, as illustrated in the table below for Set 2:

| Month | Activity |
|--------|-------------------------------------|
| Nov-22 | 1 TEG Discussion |
| Dec-22 | 2 TEG Discussion |
| Jan-23 | 3 TEG Discussion/Board Discussion |
| Feb-23 | 4 TEG and Board Approval |
| Mar-23 | 5 Consultation |
| Apr-23 | 6 Consultation |
| May-23 | 7 Consultation |
| Jun-23 | 8 Consultation |
| Jul-23 | 9 ACL |
| Aug-23 | 10 TEG Discussion |
| Sep-23 | 11 TEG Discussion/ Board discussion |
| Oct-23 | 12 Drafting |
| Nov-23 | 13 TEG and Board Approval |

- 4 EFRAG SR TEG is expected to start the discussions on working papers/drafts in November 2022 (in order to be able to deliver in November 2023 incl. public consultation), after the approval of the draft ESRS composing Set 1.

Update on content of Set 2

- 5 Following the issuance of the final text of the CSRD, the following content of Set 2 is anticipated:
 - (a) Sector specific standards
 - (b) Standard for non-EU companies
 - (c) Standard for listed SMEs

- (d) Voluntary guidance for non-listed SMEs
- (e) Amendment to Set 1 in order to implement the ‘cap’ on value chain information.

EFRAG SR TEG discussion and approval

- 6 EFRAG SR TEG approved on 22 July 2022 to recommend to the SRB the development of the sector standards in three consecutive years, as detailed below.
- 7 The draft programme presented by the EFRAG Secretariat to the SR TEG proposed to cover in the first year the financial institution sectors (insurances, capital market, credit institutions). In the meeting of the 22 July the EFRAG SR TEG tentatively agreed to replace these three sectors in the first year with Food and Beverage, Road transport and Chemical industry, with the possibility for EFRAG SR TEG to further react in the following few days in case they had additional remarks on the final programme.
- 8 After the meeting one member noted that real estate should be prioritised (rather than chemical products for which stringent EU regulations already enable users to have some information). According to this member, the absence of harmonised information on real estate is a real problem, mainly because buildings energy standards are different in all EU countries, in addition to different energy mixes. This poses very concrete problems that were reflected in the taxonomy for “green buildings” and in all financial products earmarked to green building with doubts on their real quality.
- 9 In this paper the EFRAG Secretariat proposes to maintain Chemical Industry in the first year, consistent with the support expressed by the majority of the SR TEG that attended the meeting on the 22 July.

EFRAG SR TEG request to the SRB and DPC to shorten Set 2 comment period

- 10 The SR TEG formally agreed on the 22 July 2022 to request to the SRB and the Due Process Committee a reduction of the consultation period for Set 2 to 90 days.
- 11 The SR TEG considered that additional one month is essential in order to allow for the necessary stakeholders’ engagement that is the basis for sound sector standards and, in this way, increase the quality of the standards themselves. Members also observed that 90 days consultation is not a short period looking at the standards of the EC consultations.

Proposed coverage of the sectors: work programme for the next 3 years

- 12 In order to ensure standards with the appropriate quality and based on the concept of double materiality which will contribute to the European public good and meet the needs of the undertakings and users of the information reported, EFRAG Secretariat notes that:
 - (a) the sector-specific standards are to be aligned with the sector-agnostic standards that will be finalised October 2022 following the public consultation;
 - (b) there is no international framework for sustainability reporting at sector-specific level that covers both financial and impact materiality to align the ESRS standards to;
 - (c) the requirements of time and efforts from the EFRAG due process to produce such sector-specific standards (ie Secretariat drafting, EWG consultation, SRT and SRB discussion and approval) within the CSRD timeline of endorsement by 30 June 2024.
- 13 Considering the above, EFRAG SR TEG proposes to develop the 40 sector standards in three consecutive periods with a clear working programme agreed

Update on Set 2 and EFRAG Sector Standards – work programme

upon in advance for the 40 sectors. This means that the development of sector standards is spread over a three-year period (i.e. EC adoption being June 2023, June 2024 and June 2025).

- 14 In determining which standards to cover in the first, second and third period, the following elements have been considered:
- (a) The alignment with GRI and their sector standards that either exist or are under development (including for feasibility considerations, in order to leverage as much as possible on their work);
 - (b) The sectors that are associated with high sustainability risks and/or impacts on the environment and which are mentioned in the supplementing Regulation to the Climate Benchmark Regulation¹ and the Corporate Sustainability Reporting Directive (CSRD)². All sectors named in this Regulation and Directive will be developed in the first two years (2023 and 2024);
 - (c) Consideration of high impact sectors first, including Chemical products, Food and Beverages and Road Transport under SET 2
 - (i) The Food and beverages sector is considered as one of the highest emitters of carbon dioxide per year (mostly due to energy use). Also, 20% of the food and drink industry relates to the meat sector which high environmental impacts. Finally, it is an important consumer-facing industry;
 - (ii) The Road Transport sector is an important emitter of carbon dioxide per year;
 - (iii) The Chemical industry is both in the CSRD as the Climate Benchmark directive indicated as a sector that highly contributes to climate change or climate change adaptation.

- 15 As a result, the ESRS sector standards are allocated (alphabetically) to each period as follows:

| | Set 2 – November 23 | Set 3 – November 24 | Set 4 – November 25 |
|---|--|--|----------------------------|
| 1 | Agriculture and Farming^{3,4} | Building materials ⁴ | Accommodations |
| 2 | Chemical products ⁴ | Construction and engineering ⁴ | Capital Markets |
| 3 | Coal mining ^{3,4} | Construction and Furnishing ⁴ | Credit institutions |
| 4 | Food and beverages ⁴ | Defence ⁴ | Education |
| 5 | Forestry ⁴ | Energy production and utilities ⁴ | Food and Beverage services |
| 6 | Mining ^{3,4} | Electronics ⁴ | Gaming |
| 7 | Oil and Gas – mid to downstream ^{3,4} | Information Technology ⁴ | Health care and services |

¹ Regulation 2020/1818 of 17 July 2020 supplementing Regulation 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks, recital 6.

² Recital 46.

³ GRI sector standards exists or are under development.

⁴ Sector standards that are mentioned in the Supplementing Regulation to the Climate Benchmark Regulation and the CSRD (also indicated in green).

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| | Set 2 – November 23 | Set 3 – November 24 | Set 4 – November 25 |
|----|--|--|----------------------------|
| 8 | Oil and Gas – upstream ^{3,4} | Machinery and Equipment ⁴ | Insurance |
| 9 | Textiles, Accessories, Footwear and Jewelleries ⁴ | Medical instruments ⁴ | Marketing |
| 10 | Transport (road) ⁴ | Metal processing ⁴ | Media and Communication |
| 11 | | Motor vehicles ⁴ | Professional services |
| 12 | | Paper and Wood products ⁴ | Recreation and Leisure |
| 13 | | Pharma and Biotechnology ⁴ | |
| 14 | | Real estate ⁴ | |
| 15 | | Sales and Trade ⁴ | |
| 16 | | Sporting equipment and Toys ⁴ | |
| 17 | | Tobacco ⁴ | |
| 18 | | Transportation (all other) ⁴ | |
| 19 | | Water and Waste services ⁴ | |

Next steps

- 16 The EFRAG Secretariat is conducting preparatory work to develop working papers that will be submitted to EFRAG SR TEG and SRB starting from November 2022 and that will constitute the basis of the sector ESRS EDs for Set 2. The work is conducted following the approach illustrated to the SR TEG and SRB in June.
- 17 The SR TEG and SRB will discuss/provide written comments in August on a methodology paper illustrating the approach to materiality.
- 18 The EFRAG Secretariat will organize the meetings with the representatives of the sectoral organizations for the priority sectors and focus on the development of working papers for these sectors.

Questions to EFRAG SRB

- 19 Do EFRAG SRB members agree with the working programme for Set 2 approved by EFRAG SR TEG? Please explain.
- 20 Do EFRAG SRB agree to shorten to 90 days the comment period for Set 2? Please explain.
- 21 Do EFRAG SRB members have comments and observations on this topic?