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Update on Set 2 content and planning of sector standards

[Note to SRB: this paper has been updated to reflect the comments made by the SRB in the meeting of the 15 August. Paragraphs from 13 to the end have been substantially changed]

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 EFRG 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.

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

- 9 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.
- 10 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

- 11 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.
- 12 Considering the above, EFRAG SR TEG proposes to develop the 41 sector standards in three consecutive periods with a clear working programme agreed upon in advance for the 41 sectors. This means that the development of sector

standards is spread over a three-year period (i.e. EC adoption being June 2024, June 2025 and June 2026).

- 13 This paper proposes to cover in Set 2 (2022/2023) the following 10 sectors:
- (a) Agriculture and Farming
 - (b) Coal mining
 - (c) Mining
 - (d) Oil and Gas – mid to downstream
 - (e) Oil and Gas – upstream;
 - (f) Energy production and utilities,
 - (g) Road transport,
 - (h) Motor vehicle production
 - (i) Textiles, Accessories, Footwear and Jewelleries
 - (j) Food and Beverages.
- 14 In determining which standards to cover in the first, second and third period, the following elements have been considered:
- (a) Priority should be given to the sectors that are associated with high sustainability risks and/or impacts , especially those mentioned in the Corporate Sustainability Reporting Directive (CSRD)¹. For all of these sectors reporting standards will be developed in two sets until 2023 and 2024;
 - (b) Given the current capacity of the EFRAG secretariat a maximum of ten sectors can be developed in 2022/2023 (as part of Set 2);
 - (c) In order to leverage the work that GRI has done on sectors, the first set of sector-specific standards will include the sectors where GRI has already developed or is advanced in standard development. GRI work covers five of the sectors in the classification developed by EFRAG:
 - (i) Agriculture and Farming
 - (ii) Coal mining
 - (iii) Mining
 - (iv) Oil and Gas – mid to downstream
 - (v) Oil and Gas – upstream;
 - (d) To guide the selection of the remaining five sectors to be developed in 2022/2023 (as part of Set 2), authoritative data and studies were used to identify the highest-impact sectors. Data from the European Environment Agency (EEA) was used for determining the highest greenhouse gas emitting sectors² . Data on working conditions in sectors collected by Eurofound (European Foundation for the Improvement of Living and Working Conditions)³ and the OECD's identification of sectors with value chains with high human rights risks were used. As no comprehensive study on consumer impacts by sector was available, the BEUC (European Consumer

¹ Recital 46.

² EEA (2020) Sectoral Shares in EU-27 in 2020. In: <https://www.eea.europa.eu/data-and-maps/data/data-viewers/greenhouse-gases-viewer>

³ Eurofound (2014) Working conditions and job quality: Comparing sectors in Europe.

Organization) kindly shared its assessment of the top 5 impact sectors from a consumer perspective.

- (e) Finally, a preference is to be given to deal simultaneously with sectors that are connected ‘upstream’ or ‘downstream’ with each other, as their impacts and risks are inter-related.
- 15 This analysis confirms GRI’s choice of initial sectors, as all of the five sectors are high-impact on both at least one social and one environmental dimension. Agriculture in particular is high-impact on the greatest number of dimensions, but coal mining, mining, and oil and gas also are high impact on numerous dimensions.
- 16 On the basis of the criteria outlined above, the following five sectors are recommended for inclusion in the first batch of the sector-specific standards in addition to the five sectors covered by GRI work:
- (a) Energy production and utilities,
 - (b) Road transport,
 - (c) Motor vehicle production,
 - (d) Textiles, Accessories, Footwear and Jewelleries and
 - (e) Food and Beverages .
- 17 All five of these are in the “top impact” sectors for consumers, as well as for environmental and social dimensions detailed below:
- (i) Energy production and utilities is the sector emitting the greatest amount of greenhouse gasses – 26 % of the EU total, according to the EEA (2020) and is also relevant for air pollution, with significant emissions of SOx and NOx⁴.
 - (ii) The Road Transport sector is an important emitter of carbon dioxide per year. In contrast to other industries, the transport sector emissions of GHG has risen since 1990 and now account for more than one quarter of the EU’s greenhouse gas emissions. Cars, vans, trucks and buses produce more than 70% of the overall greenhouse gas emissions from transport.

Another area where the Road Transport sector is an important polluter is air pollution. Air pollutants, such as particulate matter (PM) and nitrogen dioxide (NO₂), harm human health and the environment.

In the social area there are the poor working conditions that draw the attention. Poor working conditions, long driving hours (leading often to fatal incidents caused by driver fatigue) and low salaries are only a few of the issues that occur.
 - (iii) The motor vehicle sector also is high-impact, both in terms of its own greenhouse gas and emission of pollutants in own operations and supply chain but also as a producer of vehicles for road transport. It is recommended to deal with these two sectors in the same batch of sector-specific standards because of the high degree of interdependence between the two.
 - (iv) Textiles, Accessories, Footwear and Jewelleries is particularly high-impact on the social side (human rights in the value chain, low levels of training and skills in own operations) but also from the perspective of

⁴ https://www.eea.europa.eu/data-and-maps/daviz/share-of-eea-33-emissions-5#tab-chart_1_filters=%7B%22rowFilters%22%3A%7B%7D%3B%22columnFilters%22%3A%7B%7D%3B%22sortFilter%22%3A%5B%22__default__%22%5D%7D

circular economy considerations and environmental problems in the supply chain (e.g. high water consumption and use of pesticides in cotton production or highly polluted waste waters in textile finishing). The OECD has issued due diligence guidance specifically for this sector.

- (v) The Food and beverages sector is considered as one of the highest emitters of carbon dioxide per year (mostly due to energy use). They emit 35 Mt CO₂ e per year, representing 11% of the emissions of the food supply chain and as a result the Food and beverages sector ranks 5th in terms of GHG emissions in manufacturing. Also, 20% of the food and drink industry relates to the meat sector which has high environmental impacts. Finally, it is an important consumer-facing industry, recognised in the EU's [Farm to Fork Strategy](#) because *“Food processors, food service operators and retailers shape the market and influence consumers’ dietary choices through the types and nutritional composition of the food they produce, their choice of suppliers, production methods and packaging, transport, merchandising and marketing practices. As the biggest global food importer and exporter, the EU food and drink industry also affects the environmental and social footprint of global trade.”*; The sector is closely linked to agriculture and farming, which is why it is suggested to develop these sectors together in Set 2.

- 18 The following table indicates sectors as defined by the EFRAG PTF, which of these sectors are considered priority sectors under the CSRD or draft CSDDD and in which sectors the GRI has completed or has advanced sector-specific work. Furthermore, it indicates which sectors have been identified as having the highest impact according to the studies mentioned above. Finally, it contains the recommended allocation of sectors between the three years:

Update on Set 2 and EFRAG Sector Standards – work programme

		Sector	CSRD Priority Sector	CSDDD Priority Sector	GRI Sectoral Standard	Environment					Social				
						GHG	Water /marine	Circular economy	Pollution	Biodiversity	Consumer	Value Chain H. Rights	Working Time	Training / Skills	Physical Risks
2022 /2023	1	Agriculture and Farming	X	X	X	X	X		X	X		X	X	X	X
	2	Coal mining	X	X	X					X		X			X
	3	Mining	X	X	X					X		X			X
	4	Oil and Gas – mid to downstream	X	X	X	X				X		X			
	5	Oil and Gas – upstream	X	X	X	X				X		X			
	6	Food and beverages	X	X							X	X			
	7	Textiles, Accessories, Footwear and Jewelleries	X	X					X		X	X		X	
	8	Transport (road)	X			X			X		X		X		
	9	Motor vehicles	X			X			X		X				
	10	Energy production and utilities	X			X					X				
2023/ 2024	11	Forestry	X	X						X					
	12	Chemical products	X	X				X		X					
	13	Metal processing	X	X				X							X
	14	Building materials	X	X											
	15	Construction and engineering	X						X						X
	16	Construction and Furnishing	X												X
	17	Defence	X												
	18	Electronics	X						X	X		X			
	19	Information Technology	X						X			X			
	20	Machinery and Equipment	X							X					
	21	Medical instruments	X												
	22	Paper and Wood products	X												
	23	Pharma and Biotechnology	X												
	24	Real estate	X												
	25	Sales and Trade	X										X	X	
	26	Sporting equipment and Toys	X												
	27	Tobacco	X												
	28	Transportation (all other)	X						X				X		
	29	Water and Waste services	X												
2024/ 2025	30	Accommodations											X	X	
	31	Capital Markets													
	32	Credit institutions													
	33	Education													
	34	Food and Beverage services											X	X	
	35	Gaming													
	36	Health care and services											X		X
	37	Insurance													
	38	Marketing													
	39	Media and Communication													
	40	Professional services													
	41	Recreation and Leisure									X		X	X	

Next steps

- 19 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.
- 20 The SR TEG and SRB will discuss/provide written comments in August on a methodology paper illustrating the approach to materiality.
- 21 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.

Background paper

- 22 **Agenda Paper 07.02** illustrates the methodology to develop the ESRS Sector Standards. It will not be discussed in this meeting and is provided for information purposes to the SRB. The SR TEG plans to discuss this paper on its meeting on the 24 August 2022.

Questions to EFRAG SRB

- 23 Do EFRAG SRB members agree with the working programme for Set 2 as described in this paper? Please explain.
- 24 Do EFRAG SRB agree to shorten to 90 days the comment period for Set 2? Please explain.
- 25 Do EFRAG SRB members have comments and observations on this topic?