



Sector ESRS – General approach

Survey for SRB members

SEC 1 Sector classification

<p>Question 1 – consultation approach to ESRS SEC 1 Sector classification</p> <ul style="list-style-type: none"> • Do you agree to consult on ED SEC 1 starting from April 2023 and to review the sector definition progressively, when each sector ESRS is issued? • If you disagree which approach would you suggest to adopt? • Please provide your comments, if any. 	<p>Agree</p>	<p>Disagree</p>
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Contextual information

- 1 This Exposure Draft illustrates how NACE codes are aggregated to form sectors, providing in this way a central reference for all the undertakings on how to report their sector of activities. This will be the infrastructure for the application of draft Sector ESRS. At the same time, from 2025 undertakings are due to report the disclosure required by SBM 1 of ESRS 2, which includes also a breakdown of the revenues by sector.
- 2 The sector classification approach in ESRS SEC 1 exposure draft ('ED') reflects a 'desktop review and grouping approach', i.e., prepared on a top-down basis, before a detailed investigation of the sustainability matters likely to be material for the specific sector and the related disclosure requirements, which could enhance the definition of sector boundaries. The draft has also been prepared on the basis of a reconciliation table with the SASB classification system. This table was prepared by EFRAG Secretariat and not shared nor approved by the ISSB or ISSB staff. The preparatory work on the first sectors performed by the EFRAG Secretariat shows that the activity that leads to the definition of sustainability matters and disclosure requirements applicable at sector level is also a 'field test' for the sector classification. Future changes to the aggregation of sectors are anticipated once the investigation of matters and disclosure requirements applicable to each and every sector progresses. The following is a list of non-exhaustive examples:
 - (a) Sales and trading: for some of the sectors it would be more relevant to include, with the production activities, also the sales and trading services. Consequently, the corresponding sub-sectors (grouping of NACE codes) related to the sales and trades of a given product could be re-allocated from the Sales & Trade sector of SEC 1 to the relevant production sector.
 - (b) Taxonomy sectors: the assessment of the alignment with the Taxonomy has not been performed so far. The proposal of the EFRAG Secretariat is to perform this assessment in conjunction with the sector Exposure Drafts, i.e. when issuing the ESRS dedicated to Mining, the ED would reflect the outcome of such alignment, where appropriate.

- 3 In relation to the Taxonomy sectors a full alignment may not be possible as the sector scopes in both frameworks seem to be defined on a different basis. Hereafter two examples where an alignment may be impossible to achieve:

NACE code activity	EU Taxonomy sector	Draft ESRS
F.43.22 _Plumbing, heat and air conditioning installation	Energy	Construction and engineering
F.42.22 Construction of utility projects for electricity and telecommunications	Energy	Construction and engineering
H.49.50 Transport via pipeline	Water	Oil and Gas – mid to down

Interaction with sector agnostic standards

Question 2 – Interaction with sector agnostic standards		
<ul style="list-style-type: none"> • <i>Do you agree with the proposed approach?</i> <ul style="list-style-type: none"> - <i>Incremental to sector agnostic</i> - <i>Consistent with always mandatory items in sector agnostic</i> - <i>Based upon a list of material sustainability matters identified in the sector standard</i> • <i>If you disagree which approach would you suggest to adopt?</i> • <i>Please provide your comments, if any.</i> 	Agree Agree Agree	Disagree Disagree Disagree

Contextual information

- 4 The content of sector specific draft ESRS standards is incremental to the content of the topical standards in Set 1. This means that, when the undertaking concludes that a sustainability matter is material, it shall report according to the DRs of the topical standard in Set 1 and, in addition, the DRs of the sector specific ESRS.
- 5 Consistently with the sector agnostic approach:
- (a) contents in the main body and AR of the draft sector ESRS that relate to ESRS E1 *Climate Change* and ESRS 2 *General Disclosures* are to be reported irrespective of the materiality assessment;
 - (b) DRs in ESRS S1 *Own workforce* from 1 to 9 are to be reported irrespective of the materiality assessment for undertakings with more than 250 employees;
 - (c) the datapoints in Appendix C of ESRS 2 (stemming from EU regulation) are to be reported irrespective of the materiality assessment.
- 6 A limited number of additional datapoints stemming from EU regulations (primarily but not limited to Pillar 3) that were not included in Set 1 due to their sector-specific nature, will be included (in the next iteration of the paper) as always to be reported, irrespective of their materiality.
- 7 The draft sector ESRS identifies a list of sustainability matters that are deemed material for the sector; some of them are also covered in Set 1. The undertaking

runs a materiality assessment supported by both the list of Appendix B in ESRS 1 and the list in paragraph 16 of the Mining ESRS working paper. In this way, the list of material matters includes:

- (a) matters identified by the standard setter as material in the draft sector ESRS;
- (b) matters listed in ESRS 1 Appendix B identified by the undertaking as a result of its materiality assessment (when the same sub-topic or topic is in both lists, the conclusion of the standard setter in draft sector ESRS would prevail).

Materiality approach

Question 3 – Materiality approach		
<ul style="list-style-type: none"> • Do you agree with Approach 3 (no DRs outside the materiality assessment)? • If you do not agree, do you think that the SRB should consider Approach 3+4 (selected DRs outside materiality assessment for some NACE codes + reinforced transparency instead)? • Please provide your comments, if any. 	Agree	Disagree

Contextual information

Approach 3 (see SRB paper 20 January 2023)

- 8 The undertaking applies paragraphs 33 to 39 of ESRS 1 *General requirements* in determining the content of its sustainability statements with respect to the material matters identified in paragraph 7 above. This means considering both the content of the DRs in the sector agnostic standards AND the content of the DRs in the sector ESRS. This would mean that DRs (and their datapoints) in both sector agnostic and sector specific standards related to policies, actions and targets would always be reported for the material matters. However, metrics (DR or datapoints) could be omitted if not material and therefore considered as “not material to the undertaking”.
- 9 Consistent with the sector agnostic approach, no reinforced transparency provisions are included (such as a justification/disclosure when a DR or datapoint is omitted).

Approach 3+4 (see SRB paper 20 January 2023)

- 10 Selected DRs are identified as always to be reported (outside the materiality assessment) for identified NACE codes.
- 11 In its meeting of the 12 January, the SR TEG reached a tentative preference for Approach 3 but discussed also the need to consider on a case-by-case basis how to go one level below the sustainability matter. Members noted that combining Approach 3 with Approach 4 (identify a subset of DRs mandatory for some of the NACE codes belonging to the sector) would not be feasible as a general principle. It was considered to be too burdensome to apply and impracticable to implement for EFRAG as standard setter as the currently available material shows in general an aggregation of sustainability matters by sector and not by NACE code. Nevertheless, it was agreed to recommend to the EFRAG SRB to pragmatically consider specific cases of DRs for which there is evidence that market practice considers such DRs to be material for a specific aspect of a sustainability matter or for a specific NACE code.
- 12 As an alternative, such selected DRs would be subject to materiality, but with a reinforced transparency: when the undertaking omits a datapoint or DR ‘always to

be reported', it has to disclose an explanation of why it concludes that the information is not material.

Level of disaggregation (see SR TEG paper 04-01 discussed on 3 February 2023)

Question 4 – Level of disaggregation		
<ul style="list-style-type: none"> • Do you agree with the proposed approach for disaggregation at site or asset level 		
<ul style="list-style-type: none"> - Proportionate scope 	Agree	Disagree
<ul style="list-style-type: none"> - Material aspects affecting a specific site 	Agree	Disagree
<ul style="list-style-type: none"> - Alternative information based on internal control 	Agree	Disagree
<ul style="list-style-type: none"> - Plus overall mapping when appropriate 	Agree	Disagree
<ul style="list-style-type: none"> • If you disagree which approach would you suggest to adopt? 		
<ul style="list-style-type: none"> • Please provide your comments, if any. 		

Contextual information

- 13 For some sectors, current practice and other existing frameworks and standards show a number of disclosures disaggregated by location, at operational site level, (or at country, at asset or at project level).
- 14 A requirement to disclose information disaggregated at individual sites or assets is to be understood as appropriate only when strictly needed (implementing the criteria in ESRS 1 on level of aggregation). The decision whether to require a disaggregation at operational site, whether to limit it to key operational sites or to require a higher level of aggregation has to reflect primarily the relevance of the resulting information and, as a second step, the cost/benefit profile of the disclosures.
- 15 Consistent with ESRS 1, appropriate factors have to be considered in order to define the appropriate level of granularity, by keeping a focus on the necessity of the resulting information:
 - (a) to be material;
 - (b) not to obscure the specificity and context necessary to interpret the information; and
 - (c) not to aggregate material information items of different natures.
- 16 The following three general principles would support the operationalization of the level of disaggregation in the sector ESRS standards:
 - (a) Proportionate scope: The level of disaggregation to be required in the [draft] standards shall be commensurate to the scope at which the sustainability processes and impacts occur. To produce relevant information, when material impacts affect a specific operational site or a specific local area, such as for high-land impact operations, the draft sector ESRS shall require a disaggregation of the information at this level. Example: highly-impacting mining sites.
 - (b) Material aspects affecting a specific site: When specific events or aspects that are linked to a specific operational site or specific local area trigger material changes in the impact profile of the operations, the draft ESRS shall require disaggregation at level of this specific site or local area. Examples:

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- (i) for biodiversity, the draft ESRS will incorporate a presumption that for operations that are located in or near nature sensitive areas and are connected with material impacts, risks and opportunities, the appropriate level of disaggregation is the specific operational site;
 - (ii) for mining, all the sites that are under closure and rehabilitation shall be disclosed.
- (c) Alternative information based on internal control: In developing the required level of disaggregation, before defining a granularity at operational site level, the draft ESRS standards should consider whether relevant information can be obtained requiring to disclose alternative information based on the internal control evidences of the undertaking. For example, requiring whether an EMAS or ISO 14001 certification exists at site level, would replace more detailed info on governance, policies and actions on environmental IRO at site level.
- 17 When appropriate, the standard will include a requirement for a mapping of the operational sites, that would support the identification of the sites that are connected with a specific impact, risk or opportunity.

Structure

<p>Question 5 – Structure</p> <ul style="list-style-type: none"> • <i>Two chapters in main body and two in AR, new datapoints in main body, application material and voluntary datapoints in AR</i> • <i>If you disagree which approach would you suggest to adopt?</i> • <i>Please provide your comments, if any.</i> 	Agree	Disagree
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- 18 The content of the main body and of the Application Requirements (AR) of the draft sector ESRS is structured in two chapters, one covering disclosure requirements not already included in Set 1 and one covering specifications to content included in Set 1. The latter are presented in the main body of the standard when they introduce new 'shall' datapoints and in the AR in all the other cases.