

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the SRT members to follow the discussions in the meeting. Given that the first sector-specific working paper is Mining, Quarrying and Coal, the purpose of this paper is twofold. On the one hand, to have the first discussion on the architecture and approach on sector-specific working papers and, on the other, to discuss the technical content for Mining, Quarrying and Coal.

## **WP Mining, Quarrying and Coal**

### **Feasibility of combining materiality approaches 3 and 4**

#### **Background**

1 On 12 January the SR TEG discussed the approach to materiality in Sector ESRS. The paper<sup>1</sup> prepared for the 12 January illustrated the pros and cons of 6 possible approaches to materiality. The SR TEG reached a tentative agreement on the preference for Approach 3, but also on the necessity 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, as it would be too burdensome to apply and impracticable to implement for EFRAG as standard setter (the current available material shows in general an aggregation of sustainability matters by sector and not by NACE code). Nevertheless, it was tentatively agreed to recommend to the EFRAG SRB to pragmatically consider specific cases of DRs for which there is evidence that the market practice considers them material for a specific aspect of a sustainability matter or for a specific NACE code. Please note that at this stage the EFRAG SRB has not yet taken a decision on this point.

2 To recall, materiality approaches 3 and 4 stand for:

Approach 3	The standard setter identifies the matters that are considered material for the sector. The undertaking exercises its materiality assessment at level of DR or datapoint
Approach 4	Subset of DRs mandatory for some of the NACE codes included in the sector. This approach seeks to address the necessary differentiation within a sector by writing mandatory NACE specific DRs

3 On 3 February SR TEG discussed the inclusion of sub-sub-topics or data points as mandatory regardless of the materiality assessment. Those that support this approach, consider that this is necessary as the aggregation of NACE codes into sector results in some matter/sub-sub-topic or DR not being relevant for some entities. An example may be that acid drainage is always important for cobalt mining but not necessarily for quarrying, or that animal welfare is always material to a transporter of animals. Some expressed concern that this could lead to significant

<sup>1</sup>

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2212231203409083%2F02-07%20SR%20TEG%20230112%20Mining%20Working%20paper%20Cover%20Note.pdf>

additional complexity, potentially leading to discussions about disclosures where the activity is immaterial to the undertaking, but compulsory under the standard. Others have the opposing view that this may reduce complexity as it gives certainty, and the idea is that they would come to the same conclusion in any case but agree that restraint is required. SR TEG members agreed to work toward a compromise, where selected aspects or DRs would be considered ‘indisputably’ material for a specific NACE code (group of NACE codes). This could be operationalised using a table with the list of the relevant subsectors impacted by the standard, mapped to the DRs in the sector standard that would be ‘indisputably material’. This would indicate the standard setter’s assessment of materiality. To be also considered the possibility to include an explanation of why the undertaking disagrees.

- 4 The EFRAG SRB received an update on 7 February on the above SR TEG discussion. They did not support the introduction of a new concept (‘indisputably material’), as this would imply that the materiality assessment is not entirely reliable, in addition it would be difficult to implement.

### **Objective**

- 5 To discuss the inclusion of selected DRs as always mandatory (outside the materiality assessment), its feasibility, advantages and disadvantages. To identify which DRs would be included in this category for V2 (Mining).

### **List of DRs in V2 (Mining) potentially outside the materiality assessment**

- 6 The EFRAG Secretariat notes that there are advantages and disadvantages for both Approach 3 and Approach 3+4 (see paper prepared for the 12 January) and that Approach 3 would allow conceptual consistency with the approach in sector agnostic. The discussion, to some extent, has similarities with the discussion about materiality in sector agnostic standards (see SR TEG meeting 25 October 2022), where some SR TEG members dissented from the approval of ESRS 1 as they had serious doubts regarding the maturity of the materiality assessment in certain countries and certain types of undertakings.
- 7 To support this discussion, the EFRAG Secretariat considered whether there is available evidence of some DRs that would in the list of the ‘mandatory’ DRs. The information available at this stage is the list of DRs that, according to the sector community participants to the second workshop held on 21 November 2023, should be prioritized over others. While this information has been developed in a different context, it can nevertheless provide evidence of the DRs that the current market practice consider always relevant for undertakings in the sector.
- 8 Sector community participants indicated the following potential Disclosure Requirements as a priority. Please note that the paragraph numbers refer to V2 of the working paper as uploaded for the SR TEG meeting of 3 February 2023.

	<b>Disclosure requirement – description</b>	<b>Where in the WP V2?</b>
1	Actions taken to prevent or mitigate potential negative impacts on local communities and workers from emissions of coal dust	(para 110-111)
2	Volume of nitrogen oxides, sulphur oxides and other significant air emissions per operational site	(para AR 41 to AR 45)
3	Tailings facilities in place, name, location, ownership status and more	(para 35 to 44)
4	Estimate of the carbon dioxide emissions embedded in proven coal reserves	--
5	Number of critical incidents in the reporting period and their impacts	(para AR 46 to AR 51)

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6	Actions taken to prevent or mitigate negative impacts from acid mine drainage	(para AR 30 to AR 40)
7	Compliance with the GISTM standard on Tailings	(para 36)
8	Total number and total volume of recorded significant spills.	(para AR 46 to AR 51)
9	Up-to-date list of operational sites that (i) have closure and rehabilitation plans in place,(ii) have been closed and (iii) are undergoing closure activities	(para 26)
10	Significant impacts on biodiversity the exploration has or has had	(para 45 to 55)
11	Understand the effort in contribution to eliminate child labour	(para AR 85 to AR 86)
12	Negative social impact of the supplier and its understanding in the supply chain	(para 77 to 79)
<b>Three other most important aspects to consider</b>		
	EITI commitment	(para 18 to 22)
	Social dialogue and workers participation	agnostic
	Coal transition	--

**Questions for EFRAG SR TEG**

- 9 EFRAG SR TEG members are requested to provide in this meeting:
- (a) their suggested list of DRs in V2 (Mining) that should be considered as mandatory (outside materiality assessment);
  - (b) to support their suggestion with arguments, explaining the advantages and disadvantages of this approach as opposed those of Approach 3.