This paper provides the technical advice from EFRAG SR TEG to the EFRAG SRB, following EFRAG SR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG SRB are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

Draft ESRS XBRL Taxonomy

Methodology and Architecture

Cover Note

Objective

1. The SR TEG discussed the key contents of the architecture and methodology of the ESRS XBRL Taxonomy on the 17th of April 2023, as presented in the Methodology Note (03-02).

2. The issue paper 03-02 covers several relevant decisions, principles and working assumptions with a focus on how the data points defined in the ESRS are reflected in the digital ESRS XBRL taxonomy.

3. The purpose of the SRB meeting is to get present key concepts of the issue paper and the corresponding feedback received from the SR TEG members.

4. Due to the very technical nature of the XBRL technology, the issue paper has been written in a way that helps SR TEG and SRB members to be able to understand the concepts; hence, technical terms and language are avoided wherever possible.

Background

1. EFRAG has developed the first set of ESRS. The EC asked EFRAG to develop a digital XBRL taxonomy for the ESRS as well as for the Article 8 EU taxonomy disclosures.

2. EFRAG has set up a project to develop a digital XBRL taxonomy for the ESRS with the help of an external consultant.

3. The EFRAG Digital Reporting team (EFRAG Secretariat) systematically reviews the ESRS XBRL taxonomy developed by the external consultant and discusses specific matters with the topical leaders of the corresponding standards. This review process will cover the entire taxonomy.

4. A Digital Committee (DC) consisting of SR TEG and SRB members has been established, which supports the SR TEG and SRB in their decision-making process and, in particular, reviews individual parts of the ESRS XBRL taxonomy to ensure that the methodology and process have been properly followed. The purpose is not to re-do the review performed at the previous step.

5. An EFRAG Digital Reporting Consulting Forum (DRCF) consisting of selected preparers, users, software vendors, auditors and other experts has been established and is supposed to advice the SR TEG is specific questions. The second meeting is supposed to be on the 26th of April.

6. The project started at the end of 2022 and will lead to the issuance of the draft ESRS XBRL Taxonomy, as well as a set of tagged illustrative reports.

7. ESMA will implement a "tagging rule" on how the ESRS XBRL Taxonomy needs to be applied by undertakings as part of an draft RTS.

Issues paper

5. The objective of this session is to obtain SRB`s views and approval on the different issues discussed in the agenda paper 04-02. In particular, the following aspects are covered:

    a. Types of ESRS data points and corresponding tagging categories.

    b. Narrative tagging:

        i. Working assumptions.

        ii. Level of nesting.

        iii. Level of separability.

    c. Entity-specific content.

    d. Implicit tagging as "not material for the undertaking".

    e. Use of the expression "shall consider" in the ESRS.

    f. Implementation of the term "including" in the ESRS XBRL Taxonomy.

    g. Implementation of the term "whether and how" in the ESRS XBRL Taxonomy.

EFRAG SR TEG discussion and advice to the EFRAG SRB

EFRAG SR TEG discussion

8. At its meeting on the 17th of April, the SR TEG discussed topics a) to e) from the list above during the meeting and the members were invited to provide comments in writing, if not already provided during the meeting.

9. In general, the members approved and welcomed the approaches described in the issue paper 04-01 and praised the high quality and preparation of the work performed so far.

10. Comments were provided on the approach for granular narrative tagging, which is a key concept of the ESRS and in general considered to be useful by several members. Narrative tags in the ESRS XBRL taxonomy are often "statements" rather "explanatory" information. Instead, the narrative notes to the financial statements are, in general, tagged in order to provide contextual information to the numerical value tagged in the financial statement. These different attributes lead to different impacts [or choices] on the XBRL taxonomy.

11. Regarding the level of nesting, TEG members supported the idea that the tagging of "parent" level would not bring additional benefits to the users if the narrative content of a disclosure is already tagged with more granular nested "children" of that data point. However, they emphasized the importance to grant full access and usability for users that intend to extract and use level 2 information.

12. Regarding the level of separability, TEG members observed that the identification of individual concepts to be separately tagged should be based on the potential usability of the data.

13. Two options on the approach for "entities additions to ESRS data points" were presented as part of chapter 10 on the entity specific content. Several members expressed their support for option 2, which results in a few hundred additional

"Other …." Textblock tags in the ESRS XBRL taxonomy. The EFRAG secretariat presented a technical approach to reduce this numbers by using a "Other disclosure" tag that can be combined with the sustainability matters as explicit dimensions. It was unclear for the members if and how important it is for the users of the digital reports, to have those additions separately and explicitly tagged. It was clarified that entities additions to narrative disclosures are going be tagged implicitly with the "parent" level 1 textblock tag, covering the whole disclosure requirement, and that those tags might no longer be required when the sector specific XBRL taxonomy is introduced as part of ESRS Set 2. The topic supposed to be covered in the DRCF and public consultation.

14. On the chapter 11, "Implicit tagging as 'not material for the undertaking'" two members expressed their support for a validation rule, while another member expressed serious concerns: It is highly likely, that the list does not cover all possible cases of omitting data points without deeming them to be not material, thus resulting in falsely reporting a validation warning. It was explained that the list is supposed to cover metrics only (no dimensions), but still might result in a list of "a few hundred" tags. The same member expressed also concerns, that the validation rule is likely to cause endless discussions with audit firms. Another member responded that the materiality assessment is anyway subject to auditing. The EFRAG secretariat emphasized, that the severity of the validation rule could be set to INFORMATION instead of WARNING. Other members agreed on the importance of a such a validation rule.

EFRAG SR TEG advice to the EFRAG SRB

15. Due to the fact that the SR TEG members where supportive of the general approaches and topics discussed in the issue paper 04-02 and no general concerns were recorded, except regarding the validation rule of "Implicit tagging as 'not material for the undertaking'", we can consider the Draft ESRS XBRL Taxonomy Architecture and Methodology as a recommendation to the SRB.

16. However, a few topics are supposed to be consulted by the DRCF and public consultation, namely:
    a. Level of Separability of tags
    b. the tagging of the parents as being part of the nested narrative tagging hierarchy
    c. Tagging of entities additions to ESRS data points according to option 1 (covered as part of the parent tag), or option 2 (introducing "Other disclosure" tags)
    d. The validation rule on the "Implicit tagging as 'not material for the undertaking'"
    e. Entities additions to ESRS data points (two options, plus a technical approach).

Questions for the SRB

17. Do you agree with the general approach to implement the ESRS XBRL Taxonomy as described in the issue paper 04-02?

Next steps

11   The remaining chapters 13, 15 and 16 which have not been discussed due to time constraints are to be covered either in a separate SR TEG meeting or by the Digital Committee.

12   The EFRAG's Digital Reporting Team is currently reviewing the Draft ESRS XBRL Taxonomy.

13   The next DRCF meeting is supposed to provide feedback on the topics described above.

14   Consultation questions are to be prepared.

15   After the internal review, the materials are to be approved by the SR TEG and SRB to be issued for consultation.