

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 public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the 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.

## Sector Classification (SEC 1) Exposure Draft and

### General approach to sector specific ESRS Consultation document

#### Cover Note

##### Objective

- 1 The objective of this session is to approve the updated documents (i) Sector Classification SEC 1 Exposure Draft (excluding the classification of activities in bioenergy and financial institutions) and (ii) General approach to sector specific ESRS and recommend the updated versions to the SRB for their approval.
- 2 For two limited areas the approval request is postponed (indicated in grey in the Exposure Draft). These relate to:
  - (a) the sector definitions of the financial sectors: Credit Institutions, Insurance and Capital Markets; and
  - (b) The decision to include – or not – a separate sector on Bioenergy.
- 3 For Credit Institutions, Insurance and Capital Markets the Financial Reporting Panels will provide an advice on sector definition to SR TEG members within the next two months.
- 4 For Bioenergy the SR TEG members will have to complete the technical discussion at a future meeting.

##### Workshops with sector communities

- 5 During February 2024 the EFRAG Secretariat held 11 workshops to discuss the sector classification with the respective sector communities to each sector.

##### Previous meetings on sector classification

- 6 Since begin 2024, EFRAG SR TEG discussed the Sector classification during the following meetings:
  - (a) 15 January 2024 – discuss updated versioning of SEC 1;
  - (b) 18 January 2024 – continuation of discussion of 15 January;

- (c) 7 March 2024 – treatment of manufacturing, distribution and leasing;
- (d) 19 March 2024 – proposed changes following workshops – part 1;
- (e) 21 March 2024 – treatment of manufacturing, distribution and leasing; and
- (f) 25 March 2024 – proposed changes following the workshops - part 2 – creation of a Bioenergy sector.

### Changes occurring since the last discussion

- 7 The updated sector classification now counts 35 sectors (instead of 39) and 15 sector groups (instead of 14). This is caused by the following changes:
  - (a) Tobacco sector is incorporated into “Agriculture, Farming and Fishing” and “Food and Beverages”;
  - (b) “Gaming” sector is incorporated into “Recreation and Leisure”;
  - (c) “Marketing” sector is incorporated into “Professional services”;
  - (d) “Paper and Wood products” sector is merged with “Forestry” to become “Forestry and Wood products”;
  - (e) “Sports equipment” and “Construction and Furnishings” are merged into “Household durables n.e.c.”. To build this sector additional economic activities from other sectors have been brought into this sector. Even so, some other household durables remain part of other sectors (e.g. cars or jewellery), hence the denomination “n.e.c.”. This new sector has also been assigned to a new sector group “Durable goods”.
- 8 Specialised sales activities have been assigned to the underlying manufacturing sectors they relate to, in contrast non-specialised sales activities remain grouped in the “Sales and Trade” sector.
- 9 Operational leasing activities have been assigned to the underlying manufacturing sectors they relate to. Financial leasing operations are incorporated into the “Credit Institutions” sector. Leasing of intellectual property and other tangible goods and non-financial assets – categories that can affect all sectors – remain in the “Sales and Trade” sector.
- 10 Comments from workshops discussed during the SR TEG meetings of 19 and 25 March have been incorporated in the classification. This made it necessary to include some structural changes in dealing with the NACE codes:
  - (a) Dual or multiple use of several NACE Classes. The Basis for Conclusions contains a list of all NACE Classes that are used more than once and if so, in which sectors;
  - (b) Description of activities at a more granular level than NACE Classes (4-digit level) to separate activities that do not belong in the same sector.
- 11 The Basis for Conclusions has also been updated.

**Questions for EFRAG SR TEG**

- 12 The General Approach Consultation Document presents two alternative wording to deal with the reporting boundary. Do EFRAG SR TEG agree with the approach identified as Option 1 in relation to the reporting boundary in the General Approach Consultation Document?
- 13 Do EFRAG SR TEG approve the proposed sector classification SEC 1 and SEC 2? Please explain.

**Next steps**

- 14 Complete the discussion on bioenergy, receive the advice of the FI advisory panels on financial institutions.
- 15 To submit the updated version for approval to the SRB and subsequently to prepare the public consultation on the documents.
- 16 Consult in written on basis for conclusions on the General approach Consultation document.

**Agenda Papers**

- 17 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 04-02 – Sector Classification SEC 1 ;
  - (b) Agenda paper 04-03 – Sector Classification SEC 1 – compared ;
  - (c) Agenda paper 04-04 – Sector Classification SEC 2; and
  - (d) Agenda paper 04-05 – Sector Classification SEC 2 - compared.