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Materiality approach to Sector ESRS

Objective of this paper

To update EFRAG SR TEG on the direction provided by the EFRAG SRB on the materiality approach to be adopted in the sector ESRS.

Direction provided by the EFRAG SRB

On 21 and 28 February 2024 the EFRAG SRB discussed the approach to materiality for the sector standards.

They agreed¹ to adopt the following approach for the ED of sector ESRS to be put in consultation:

- 1. The sector standard identifies a list of sustainability matters (SM) commonly applicable to the undertakings operating in the Sector, which shall be taken into account by the undertaking when performing its materiality assessment (MA);***
- 2. The list will be developed starting from ESRS 1 - AR 16 and adding, when necessary, new sub-sub-topics (or sub-topics);***
- 3. Paragraphs 33, 34 and 35 of ESRS 1 are applicable when determining the information to be reported on a material SM;***
- 4. For metrics that are non-EU datapoints, if the undertaking omits information prescribed by either a DR or a datapoint of a DR, such information is considered to be implicitly reported as “not material for the undertaking”;***
- 5. The undertaking shall provide the conclusions of its materiality assessment regarding the list of SM, with a brief explanation, in relation to its specific facts and circumstances, including its business model, its locations and/or its products, of which matters are assessed to be material and which are not;***
- 6. appropriate ARs will clarify how the materiality assessment at DR level would work, i.e., which facts and circumstances could justify the omission of a DR pertaining to a material SM (e.g. to omit DRs related to impacts on indigenous community, the company would need not to have operations affecting the community nor contact with such community).***

In the meetings the two most debated items were 5 and 6.

¹ 3 abstentions and 2 dissents

Regarding item 5, this is an additional datapoint (the Delegated Act (DA) only has a “may” except for climate), that relates to the higher expectation that SM identified for the sector are material compared to the situation in the sector agnostic standards. The additional transparency (from “may” to “shall” explain) is justified by this higher expectation. This will help establish trust in the MA and could be reconsidered in a future review of the standard. In substance the approach would be similar to the one prescribed by the DA for climate change, where specific transparency is pursued.

Regarding item 6, the proposed approach does not require specific transparency when a DR or a datapoint pertaining to a material SM is omitted. However, to counterbalance this element, more discipline and guidance to support the assessment of when a DR could be omitted are foreseen in specific paragraphs of Application Requirements to be drafted reflecting the specificities of the DR in question.

Additionally, for metrics that are EU datapoints, the transparency would be the same as in the DA, i.e. they are identified in a table including paragraphs where they are located and the explicit mention “not material” when they are omitted. Finally, when metrics other than EU datapoints are omitted, they are implicitly assumed to be “not material”.

Further details on the technical analysis performed by the EFRAG Secretariat to support the SRB discussion can be found at this link (Agenda Paper 06-02 for the EFRAG SRB 21 February 2024):

<https://efrag.sharepoint.com/Meetings/2311031443457268/Meeting%20Documents/06-02%20SRB%20240221%20Issue%20paper%20-%20Materiality%20for%20Sector%20ESRS.pdf>

Question for members

Do you have any comments on the SRB direction?



Appendix – Previous SRB discussions

The EFRAG SRB discussed on 13 September 2023 the materiality approach for sector standards, considering the changes in the materiality approach from the November 2022 ESRS drafts to the Delegated Act (DA)²³.

The paper provided for that meeting illustrated the two approaches to sector materiality that achieved consensus in EFRAG SR TEG and the EFRAG SRB in March 2023 (identified in this paper as TEG Consensus and SRB Consensus), plus the approach adopted by the EC in finalizing the DA (DA approach). The first two are sector specific materiality approaches, while the DA is sector agnostic. The table below summarises the essential features of those three approaches.

The TEG Consensus is indicative, as superseded in March 2023 by the SRB Consensus.

Approach	TEG Consensus	SRB Consensus	DA approach
List of sustainability matters (SM) included in the sector standard	Outside materiality approach (assumed to be always material).	Subject to materiality assessment.	
Transparency about omitted matters	NA (material matters cannot be omitted)	Disclosure of MA conclusions to be sufficiently detailed to understand why sustainability matters (sub-topic level or beyond) are not material (i.e., how business model/ location/ products interact with each of the non-material matters).	Detailed explanation when climate change (topic level) is not material. For all other topic sustainability matters, “may” data point to conclusions of materiality assessment for that topic.
Transparency about omitted DR or datapoints of material sustainability matters ⁴	Explanation when a DR is omitted. No explanation when a datapoint is omitted.	Omitting DRs or data points for metrics defined at the sector or sector-agnostic level is possible (under para 34 and 31	Omitting DRs or data points for metrics defined at the sector or sector-agnostic level is possible (under para 34 and

² <https://efrag.sharepoint.com/Meetings/2302241024321451/Meeting%20Documents/06-01%20Sector%20materiality%20EFRAG%20SRB%20230913.pdf>

³ Annex 1 compares the sector agnostic materiality provisions in the draft standards released by EFRAG in November 2022 with the DA. The differences pertain to ESRS E1, specific ESRS S1 Own workforce data points, the voluntary nature of the explanations when a matter is omitted, and the transparency for non-EU data points.

⁴ In all the three approaches for material matters there is a requirement to provide PAT on the material SM or stating that the undertaking does not have a PAT.



Approach	TEG Consensus	SRB Consensus	DA approach
		<p>of ESRS 1) with no further explanations.</p> <p>Paragraph 39 of draft ESRS 1 (Nov.2022): when metric DRs or datapoints are omitted, they are considered implicitly “not material”.</p> <p>Specific ARs to provide discipline on when a DR can or cannot be omitted.</p>	<p>31 of ESRS 1) with no further explanations.</p> <p>Paragraph 35 of ESRS 1 DA: for EU legislation datapoints omitted, disclose that they are “not material”.</p>
Other aspects	In order to identify DRs to be always mandatory at sector level, consult on them ⁵ .	New application requirements to clarify under which conditions a DR on a material SM could be omitted ⁶ .	NA

⁵ EFRAG SR TEG approved the ED OG and MQC on 6 and 7 March. As an integral part of SR TEG advice to SRB, the EFRAG recommended to consult on whether some of the DRs in the sector ESRS should be outside materiality and which they should be.

⁶ For example, omitting DRs related to impacts on indigenous community would be only possible when the company does not have operations nor contact with such community. Appropriate DRs to be drafted reflecting the content of the specific DRs.

