

## **Cover Note**

### **Proposed methodology for determining material topics in sector-specific ESRS**

#### **Purpose of this session**

- 1 To discuss and approve the methodology for the development of the ESRS sector specific standards.

#### **EFRAG SR TEG discussion and approval**

- 2 EFRAG SR TEG approved the methodology in its meeting on the 24 August 2022.
- 3 EFRAG SR TEG supported the paper and agreed to adopt the described methodology in the development of ESRS Sector Standards, subject to the following changes to be reflected in the paper:
  - It was agreed to amend the paper, in order to give a less prominent role the existence of EU legislation as a determinant of the materiality of a topic. It is not the intent of the ESRS to require disclosure on the compliance with all the EU regulations. It should be clarified that EU legislation should play a role if it specifically mandates reporting by undertakings on sustainability matters, for example the SFDR and (potentially) the draft CSDDD; at the sector-specific level, such an example may be the Conflict Minerals Regulation. Furthermore, the existence of EU policies and legislation may indicate the existence of material impacts and risks, which should be analyzed. Finally, the bulk of EU legislation is not applicable to undertakings in the value chain that are non-EU companies. It was also suggested to delete the reference to the Taxonomy regulation, as EFRAG has not received a mandate to develop the disclosure of the Taxonomy regulation.
  - The language of the paper will be amended to more consistently follow the language of the final version of the CSRD regarding terms such as 'sustainability matters or factors' and 'sub-topic' or 'sub-sub-topics'.
  - The paper proposes to conclude that a topic is material at sector specific level when it is material for the 'majority' of the companies in a given sector. The question was raised about alternatives to this rule and the need to examine such alternatives, if they exist.
  - The paper implies that if a matter is material and it is already covered by the sector agnostic standards, the sector specific ESRS includes incremental Application Guidance. This should not be a general rule, but the paper should specify that this is the case only when the AG in the sector agnostic level is not sufficient.

#### **Agenda Papers**

- 4 **Agenda Paper 07.02** is the methodology paper discussed and approved by the SR TEG of the 24 August 2022, still to be updated for the comments described above.

**Questions to EFRAG SRB members and observers**

- 5 Do you agree with the methodology proposed in this paper?
- 6 Do you have any specific suggestion on how to improve the proposed methodology?