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Pilot sector ESRS discussion

based on mining [draft] ESRS Working Paper

Background¹

- 1 The current workplan foresees to expose for comments five draft sector ESRS in Q2 2023 (in addition to the classification system – SEC 1 ED) and to finalize them (draft to the EC) in November 2023.
- 2 The Mining sector is the first sector for which EFRAG SR TEG has started its discussion to enhance the working papers prepared by EFRAG Secretariat. EFRAG SR TEG has proposed to merge the two sectors Mining and Coal, considering the high number of common disclosures. In this meeting the Mining ESRS working paper has been provided, which does not yet incorporate the Coal sector.

Objective

- 3 Purpose of this session is to:
 - (a) update the SRB on the initial reactions of EFRAG SR TEG to the SEC 1 Exposure Draft;
 - (b) present to the SRB the process adopted by the EFRAG Secretariat in the development of the sector ESRS working papers since June 2022, using Mining as an illustrative example;
 - (c) present the methodology and structure of the Mining working paper as an illustration of the methodology and structure of the future draft standards;
 - (d) present the initial reactions of EFRAG SR TEG to the Mining working paper and discuss the structure and the key options.

SEC 1 Exposure Draft²

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- 1 Please refer to the EFRAG SR TEG Cover Note on Mining, provided as background reading for the EFRAG SRB in the EFRAG sharefile SRB meeting folder 12 January 2023, sub-folder 'Mining working paper', Agenda Paper 06-01 Mining Working Paper Cover Note (that is being made available in the public website in the folder of documents provided for the SR TEG 16 January 2023).
 - 2 Please refer to Agenda Paper 04-01 SRTEG 230110 SEC 1 ED, provided as background reading for the EFRAG SRB in the EFRAG sharefile SRB meeting folder 12 January 2023.

- 4 The EFRG PTF ESRS (May 2021-April 2022) developed an exposure [draft] that sets the ESRS sector classification (SEC 1 Exposure Draft, or SEC 1 ED)³.
- 5 This ED presents how the NACE codes will be aggregated in 41 different ESRS sectors. This classification is the basis for both the application of sector-specific standards and the disclosures required by ESRS 2 SBM-1 Market position, strategy, business model(s) and value chain on a breakdown of total revenue by significant ESRS sectors.
- 6 The ED was not subject to the public consultation of April 2022 with set 1.

EFRAG SR TEG discussions

- 7 In the SR TEG meeting on 13 December 2022, EFRAG SR TEG agreed to recommend to the SRB to:
 - (a) use the document SEC 1 ED as prepared by the EFRAG ESRS-PTF as a basis for the sector classification and to consult on it, issuing it as an Exposure Draft. Appropriate questions will be also included in the Exposure Draft to collect public input on some possible enhancements to the sector classification (e.g. re-allocation of sales and trades);
 - (b) use the NACE codes as a conventional starting point for the classification, on the basis of its wide use throughout the EU and despite this system not being perfect and having been designed for other purposes than sustainability reporting; and
 - (c) adopt the approach in ESRS 2 SMB 1 combined with SEC 1 as a managerial approach to identify the standards to be applied. The undertaking would use the ESRS sector standards corresponding to the sectors identified as 'significant' in the context of ESRS 2 SBM 1. The disclosures provided under ESRS 2 SBM 1 would not be relevant without an agreed-upon standardised sector classification. In addition the absence of such a classification would make the sector-specific standard-setting exercise very difficult and the related disclosures almost impossible to compare. Beyond sector-agnostic comparability, peer comparability is essential to enhance the meaningfulness of sustainability reporting.
- 8 EFRAG SR TEG supported the content of the SEC 1 ED draft as a basis for the consultation. The following changes were recommended:
 - (a) clarify the language on how to apply the SBM 1 test to select significant impacts, including that sectors with less than 10% of revenues may also be significant;
 - (b) clarify that the aggregation of NACE codes into Sectors is still subject to some changes in the coming years (after the consultation⁴), until the relevant sector draft ESRS is exposed for comments;
 - (c) clarify the role of the 'groups of sectors', which is for statistical reasons, as what matters for standard setting is the definition of Sector (not of groups of sectors);

³ Available in the EFRAG public website at the link below:

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2212090814197713%2F01.02%20EFRAG%20SR%20TEG%20221213%20ESRS%20SEC1%20Sector%20Classification.pdf>

⁴ The legal feasibility of such an approach (e.g. issuing a Delegated Act that is from the beginning subject to change) is still to be confirmed. Building a final classification following the feedback received from the public consultation will probably constitute a « hard stop » for further modifications (to be checked with the EC).

- (d) include appropriate questions in the ED, such as asking whether the proposed aggregation will adequately capture the impacts, risks and opportunities.
- 9 EFRAG SR TEG also suggested to reach out to experts for input on SEC 1 on the basis of the aggregation already in place for other regulations applicable to financial institutions (Pillar, Taxonomy).
- 10 The initial EFRAG SR TEG discussions of the ESRS Mining and Coal working papers confirmed that a certain level of flexibility is needed at this stage in the definition of the Sectors, as an informed decision on the list of NACE codes to be grouped in a given sector can only be taken in the finalization of the respective draft sector ESRS. For example, EFRAG SR TEG suggested to merge Mining and Coal, due to the high level of commonality in the disclosures.

Next steps

- 11 EFRAG SR TEG to provide to EFRAG Secretariat drafting suggestions.

Process to develop sector ESRS working papers⁵

- 12 Since June 2022, the EFRAG Secretariat has performed an assessment, supported by the outcome of sector workshops held from June to October 2022, of the sustainability matters that are material per each sector and of the datapoints to be included in the drafts.
- 13 Please refer to Agenda Paper 05-02 SR TEG Process for mining working paper provided to EFRAG SRB for background in the sharefile folder SRB meeting 12 January 2023 (available in the EFRAG public website here):

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2212231203409083%2F02-05%20SR%20TEG%20230112%20Process%20for%20mining%20working%20paper.pdf>.

where there is an illustration of the research process that allowed to identify, out of the datapoints that exist in the examined sources and frameworks, what to include.

- 14 The EFRAG SRB discussed and agreed on 12 September 2022 on a methodological document that has been used by the EFRAG Secretariat as a basis for the identification of the material sustainability matters in the preparation of the sector draft ESRS working paper⁶.
- 15 The starting point on any sector is a careful analysis of existing material in order to build on existing initiatives reviewed under the CSRD/ESRS lense. Key sources have been the GRI standards for impact materiality and SASB standards for financial materiality. In addition, other sector-specific European and international sectorial guidelines/frameworks and regulations, where applicable, have been

⁶ Available in the EFRAG public website here:

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2207181007468440%2F07-02%20EFRAG%20SRB%20220912-%20Materiality%20approach%20to%20Sector%20Specific%20ESRS.pdf>

Comments of the EFRAG SR TEG on the same document are available here:

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2207181007468440%2F07-01%20EFRAG%20SRB%20220912-%20Cover%20Note%20Materiality%20approach%20to%20Sector%20Specific%20ESRS.pdf>

considered. The datapoints already included in the sector-agnostic standards and those not applicable to the European context have been excluded.

- 16 Other relevant background information were provided to the EFRAG SRB to support the EFRAG SRB meeting on 14 December 2023⁷.
- 17 In November and December 2022 the EFRAG Secretariat has progressed with the drafting of ESRS sector working papers, which constitute the basis for the Exposure Drafts.
- 18 Since the beginning of January 2023, the EFRAG SR TEG has started its first round of discussion of the draft ESRS working papers. For impact materiality the working papers leverage on the existing GRI sector standards. In order to allow for a better understanding of the GRI standard setting process and conclusions, the GRI Staff has been invited to attend the EFRAG SR TEG discussions as guests with speaking rights.
- 19 Agenda Paper 07-04 reports the reconciliation of the DRs in the working paper with GRI and SASB sources. It also lists the GRI and SASB datapoints that have not been included.

Mining working paper: structure of the working paper (future Exposure Draft)

- 20 The working paper includes the following contents:
 - (a) Sector description;
 - (b) Sustainability matters;
 - (c) Disclosure Requirements, aggregated following ESRS 2 or topical sector agnostic ESRS that they complement. The requirements may be:
 - (i) adding datapoints to the corresponding DR in the topical sector agnostic standard (or ESRS 2);
 - (ii) adding Application Requirements to the corresponding DR in the topical sector agnostic standard (or ESRS 2);
 - (iii) additional Disclosure Requirements (on top of the DRs in topical sector agnostic standards (or ESRS 2). These are identified in the working paper with a progressive numbering.

EFRAG SR TEG discussion

- 21 EFRAG SR TEG members noted that the architecture (governance/ strategy/IRO management/T&M) is not sufficiently visible. Also, the articulation with the sector agnostic architecture is not sufficiently visible. The EFRAG Secretariat will consider these comments in the next iteration.

Key options: approach to materiality in sector-specific ESRS

Relationship between sector agnostic and sector specific ESRS

- 22 ESRS 1 General Requirements sets the materiality approach to be followed when preparing ESRS sustainability statements. It combines a materiality approach with a list of disclosures that are always to be reported. Irrespective of the outcome of

⁷ Cover Note that supported the discussion available here:

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2212120938015426%2F04-01%20-%20Sector%20specific%20ESRS.pdf>

the materiality approach, the undertaking shall always include: the disclosures required by ESRS 2 General Disclosures and ESRS E1 Climate Change, the list of datapoints required by other EU regulations (Appendix C of ESRS 2) and, for undertakings with 250 or more employees, the Disclosure Requirements (DRs) ESRS S1-1 to S1-9 in draft ESRS S1 Own workforce. A materiality assessment process leads to the identification of the information to be reported for the sustainability matters other than climate change, supported by a list of topics and sub-topics (Appendix B of ESRS 1). When the undertaking concludes that a sustainability matter is material it shall: (a) report according to the DRs (including Application Requirements) related to that specific sustainability matter in the relevant ESRS; and (b) develop and report additional appropriate entity-specific disclosures when the material sustainability matter, is not covered by an ESRS or is covered with insufficient granularity.

- 23 According to ESRS 1 sector-specific ESRS/Disclosure Requirements are applicable to all undertakings within a sector. They address impacts, risks and opportunities not covered, or not sufficiently covered, by sector-agnostic Disclosure Requirements. The content of sector specific draft ESRS is incremental to the content of the topical standards in Set 1. This means that, when the undertaking concludes that a sustainability matter is material, it shall report according to the DRs of the topical standard in Set 1 and, in addition, according to the DRs of the sector specific ESRS.
- 24 As an illustration, if the sub-topic 'water use' is material for the undertaking, it has to:
- (a) apply the DRs in ESRS E3 related to water use;
 - (b) apply the DR(s) related to water use in the sector standard (or standards) that is (are) applicable to the sector (or sectors) in which the undertaking operates;
 - (c) where applicable, develop entity-specific disclosures.
- 25 The approach proposed in the working paper as a basis for the discussion assumes that the undertaking runs a materiality assessment supported by both the list of Appendix B in ESRS 1 and the list in paragraph 16 of the Mining ESRS working paper (Agenda Paper 06-02 for this session). The following elements of interaction need to be specifically considered:
- (a) The sector agnostic materiality approach considers Climate change and the list of datapoints mandated by the EU legislation (appendix C of ESRS 2) as always to be reported, irrespective of the outcome of the materiality assessment. The EFRAG Secretariat considers that, to be consistent with the intentions of the SRB when approving the sector agnostic standards, Climate change should also be reported irrespective of the outcome of the materiality assessment at sector specific level (ESRS 1 approach should prevail in this respect). This means that the undertaking would not be allowed to omit a DR (or datapoint) in the sector agnostic and in the sector specific standard that relate to climate change.
 - (b) The sector agnostic materiality approach considers S1-1/S1-9 as always to be reported for undertakings with more than 250 employees, irrespective of the outcome of the materiality assessment. The EFRAG Secretariat considers that, to be consistent with the intentions of the SRB when approving the sector agnostic standards, ESRS 1 approach should prevail in this respect. This means that, by stating that for an undertaking in the mining sector *own workforce* is considered a material matter (irrespective of the materiality assessment), the draft Mining ESRS would result in the undertaking having to report always S1-1/S1-9 if it has more than 250 employees. At the same time the draft Mining ESRS would result in

allowing to omit a DR (or datapoint) related to metrics of the DR other than S1-1/S1-9 in ESRS S1, when they are not material.

- 26 The EFRAG Secretariat proposes a general approach based on the materiality assessment (see the different possible approaches presented in Appendix 2), with some selected DRs deriving from EU Regulation that were not included in Set 1 due to their sector-specific nature (these datapoints will be implemented in a next iteration of the working paper draft).

Possible approaches to the materiality approach in sector-specific ESRS

- 27 The approach to materiality is key for the architecture and definition of the sector-specific reporting system, as the detailed structure and drafting of the disclosure requirements in the sector ESRS will depend on key decisions to be taken at this level. The number and content of disclosure requirements and datapoints, as well as the length of the ESRS itself depends on the approach to materiality.
- 28 EFRAG SR TEG discussed on the 13 December 2022 the materiality approach to be applied in the sector-specific ESRS. Views were initially split. Based on the approaches discussed in the meeting, EFRAG Secretariat has established a table of possible approaches (presented in **Appendix 2 to this paper**) with a brief characterization and arguments relative to their strengths and weaknesses.
- 29 The Mining working paper (provided as paper for this session: Agenda Paper 07-02) assumes as a basis for the discussion approach 3. The working paper is therefore based upon a list of sustainability matters that are considered at standard-setting level as material for all undertakings in the Mining sector and allows on that basis to select the DRs (or datapoints in a DR) to be included/omitted, following the requirements of paragraphs 33 to 39 of ESRS 1.
- 30 This would mean that DRs (and their datapoints) in both sector agnostic and sector specific standards related to policies, actions and targets would always be reported for the matters in the list of paragraph 16 of the working paper, while metrics (DR or datapoints) could be omitted if not material and therefore considered as « not material for the undertaking ». Consistency in approach is sought for a given sustainability matter (i.e. material for both sector-agnostic and sector-specific).
- 31 In terms of explicit versus implicit approach to the omissions, the working paper assumes to adopt the same approach as in the sector agnostic standards (paragraphs 38 and 39 of ESRS 1): when an entire topic is omitted, a justification is required. No explicit justification is required when a DR (or a datapoint of a DR) is omitted, but the undertaking discloses a list of the DR that are included in the sustainability statements.

SR TEG discussion (unapproved summary of discussions)

- 32 Views were split between Approach 3 (list of matters identified as material by the standard setter, materiality approach of Set 1 applied to omissions of DRs/datapoints for Metrics) and a reinforced version of Approach 3, which would combine Approach 3 with approach 4 or Approach 3 and Approach 6.
- 33 The reason to support a 'reinforced' version of Approach 3 is that, in the view of the members that promoted this idea, Approach 3 still allows to omit DRs/datapoints (maybe resulting in an entire topic to be omitted while providing a high level explanation of why it is not-material) while there should be a minimum mandatory list of DRs.
- 34 These members consider it necessary to go one level down the sustainability matter when imposing mandatory content. In the combination of Approach 3 with Approach 4 this would be done identifying content that is mandatory per NACE code (or grouping of NACE codes within the sector), while in the combination of Approach 3 with Approach 6 this could be done identifying content that is mandatory per another criterion, such as when in a specific sector a certain aspect is deemed to be a source

of material IROs (e.g. in the food and beverage sector consumers are a source of material IROs and DRs related to consumers cannot be omitted).

- 35 The members that supported Approach 3 in isolation justified this view on the basis of the consistency with Set 1 and on the basis of the flexibility that this approach would allow.
- 36 Approach 3 combined with Approach 2 (justification when a DR is omitted) was in general not supported, but it was agreed to examine the French current practice of allowing to omit a DR requiring a justification only when the materiality conclusion was 'questionable', i.e. when they have been disagreements between the auditor and the management on reaching a conclusion on whether to omit or not a DR. Some members questioned the robustness of such an approach.
- 37 In conclusion, there was 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 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 agreed to recommend of the 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.
- 38 The question of potentially addressing such cases in the ARs as « shall consider » or « may consider » (versus « shall disclose ») has not yet been discussed by SR TEG.
- 39 The EFRAG SR TEG also noted that:
- (a) the table with the sustainability matters should go one level below the level used in AR 12 of ESRS 1. This is possible, as the description of the sustainability matters in the working paper is already tailored to reflect specific aspects that are valid for the mining sector;
 - (b) the current draft seems to focus more on impacts and less on financial materiality. More datapoints could be included to cover risks and opportunities such as accruals, pipeline of projects and reserves, possibly as ARs related to the sector-agnostic DRs.
- 40 A number of drafting changes were also suggested.

Key options: level of disaggregation

- 41 A key aspect of materiality and relevance is the level of disaggregation adopted in the presentation of a specific element of disclosure.
- 42 The Mining draft ESRS working paper (Agenda Paper 07-02) identifies a number of datapoints for which a specific decision has to be taken regarding the level of disaggregation of the information (at operational site level, potentially limited to the key operational sites – with 'key' to be appropriately defined, at country level, per each incident, etc.). The identification of these datapoints as 'to be discussed' results from the research activity and reflects current market practice (i.e. other frameworks specifically referring to the information to be provided at operational site level).
- 43 The decision whether to require a disaggregation at operational site or limited to key operational sites has to reflect primarily the relevance of the resulting information and, as a second step, the cost/benefit profile. Depending on facts and circumstances, presenting a long detailed list of datapoints per each operational site could result in boilerplate non-informative disclosure, while the identification of 'key' operational sites could support instead the provision of more relevant information.

- 44 The use, as one of the ESRS 2 related disclosures, of a comprehensive list of sites with a number of indications in relation to sustainability matters shall be considered carefully.

SR TEG discussion (unapproved summary)

- 45 Members agreed that for some of the DRs a disaggregation by site was needed. They agreed on the necessity to develop criteria that would support the standard setting exercise across the sectors, acknowledging that they will be tested only progressively, as the sectors will be covered in different progressive steps.
- 46 On the basis of this discussion, the following possible avenues could be considered when defining the criteria:
- (a) distinguish between high-land impact operations (e.g. the actual mine VS hundreds of quarries – ask disaggregation at site level for high land impact operations while for quarries the information would be at entity level) and the other operational sites (offices, treatment plants);
 - (b) distinguish between active and legacy sites;
 - (c) information on biodiversity only for the key operational sites and to align with the SFDR approach;
 - (d) define key operational sites as those that pass 5% or 10% of the total production.

Centralised list of operational sites

- 47 In Agenda Paper 07-02 (Mining draft working paper prepared for the first EFRAG SR TEG discussion on 12 January 2023), the first Disclosure Requirement is the list of operational sites.
- 48 The EFRAG Secretariat considers that this central list of operational sites may be leveraged more and better and moved under ESRS 2 - SBM 1 to provide users with an understanding « geographical » footprint of the undertaking complementing the NACE code footprint and the EITI (regulatory environment) footprint of the activities. In fact, it represents a critical mapping that may serve as a basis for the navigation of more detailed disclosures that relate to different material IROs. The idea is to avoid duplication in each and every 'by site' specific disclosure but instead to refer to this list as an 'entry point' for the different specific disclosures.
- 49 As an illustration, this list could include:
- (a) numbering, site name, location (country, region, GPS location – if confirmed/to be discussed), EITI reference, mineral produced, type of production, NACE reference, annual volume (comparative), % of undertaking's activities (revenue/volume – to be discussed), active (expected duration of production, reserves) or closed;
 - (b) sector-specific IRO sensitivity, in order to pave the way to the disclosures via some sort of IRO mapping. For example: per each site, identify the IROs: methane, acid mine drainage, SOX NOX..., biodiversity, indigenous peoples, etc.
- 50 Along the lines of the EFRAG SR TEG proposal, the smaller sites (e.g. below 5% of activity) could be grouped, as long as they are homogeneous under key criteria (geography, mineral concerned...). The existence of an element of IRO sensitivity would however be visible in the central list at site level.

Key options: Reference to ISO standards

- 51 In the next iteration of the mining working paper the EFRAG Secretariat is considering to propose the integration of a number of references to ISO standards that are specific to the sector. Contact has been established with CEN-CENELEC

which is the coordinator of ISO-related activities in the EU. The Secretariat understands that the ISO standards constitute recommended best practices addressing certain key processes either of a general nature or of a sector-specific nature. It may be of interest for users to understand to what extent the undertaking is leveraging these recommendations.

- 52 A possible approach to embed the ISO standards in the sector-specific ESRS could be to require a disclosure on whether the undertaking has in place the relevant ISO processes, including some additional information such as the extent of such processes, the eventual accreditation or audit procedures, the last time such procedures took place, etc.

Papers for this session⁸

- 53 **Agenda Paper 04-02** – [draft] ESRS Mining – Working Paper
- 54 **Agenda Paper 04-03** – [draft] Mapping of disclosures: Coal and mining
- 55 **Agenda Paper 04-05** – Process for Mining – Working Paper

Questions to SRB

- 56 SEC 1 ED: do you agree with the EFRAG SR TEG orientations (paragraphs 7.9 above)?
- 57 Process: do you have any comment on the process followed so far?
- 58 Architecture and general structure: do you agree with the proposal in paragraph 20 above? Do you support the simplification of the structure by merging IRO management and metrics and targets datapoints into one disclosure requirement?
- 59 Materiality approach: do you agree with the SR TEG tentative conclusions in paragraph 37 above? which alternative would you propose, if any?
- 60 Explicit/implicit: do you agree to retain the same approach adopted for the sector agnostic standards in combination with Approach 3?
- 61 Interaction of the materiality approach at sector agnostic and sector-specific level: do you agree with the EFRAG Secretariat proposals in paragraph 25?
- 62 Level of disaggregation: do you have specific input that could serve as a basis for the development of a criterion valid across sectors? Do you agree with the directions identified in paragraph 45 above? Do you agree the centralised list of operational sites described in paragraphs 46/49 above?
- 63 Do you have any other comment?

⁸ The EFRAG SRB has received as background the papers provided for the SR TEG discussions that already took place on this topic, in the SRB folders for the meetings 12 January and 20 January 2023. Other background documents are available at the links included in this Agenda Paper.

Appendix 1: List of 41 ESRS Sectors (SEC 1)

List of sectors:

1. Agriculture, Farming and Fishing
2. Forestry sector
3. Construction Construction and Engineering
4. Energy Power Production and Energy Utilities sector
5. Oil and Gas – from Midstream to Downstream
6. Water and Waste Services
7. Entertainment Gaming
8. Recreation and Leisure
9. Financial Institutions Capital Markets
10. Credit Institutions
11. Insurance
12. Health Care Health Care and Services
13. Hospitality Accommodations
14. Food and Beverage Services
15. Manufacturing Building Materials
16. Chemical Products
17. Constructions and Furnishing
18. Defence
19. Electronics
20. Food and Beverages
21. Machinery and Equipment
22. Medical Instruments
23. Metal Processing
24. Motor Vehicles
25. Paper and Wood Products
26. Pharma and Biotechnology
27. Sporting Equipment and Toys
28. Textiles, Accessories, Footwear and Jewelleries
29. Tobacco
30. Mining Coal Mining
31. Mining
32. Oil and Gas - Upstream and Services
33. Real Estate Real Estate and Services
34. Sales and Trade Sales and Trade
35. Services Education
36. Marketing

- 37. Professional Services
- 38. Technology Information Technology
- 39. Media and Communication
- 40. Other Transportation
- 41. Road transportation

Appendix 2: List of options related to materiality approach, their strengths and weaknesses

APPROACH	Strengths (+)	Weaknesses (-)
1. List of DRs entirely subject to materiality	This approach focuses entirely on the materiality assessment, giving high flexibility but it doesn't promote comparability.	Depending on the level of maturity of the undertaking in performing the materiality assessment, the result may be more or less complete/relevant. Risk of under-reporting for several years.
2. All the DR in the sector specific ESRS are subject to materiality assessment. Either on all of the DRs or on a subgroup of them, the undertaking has to report a justification when they do not include a DR. This approach represents a compromise between 1 and 6.	The undertaking would be required to include an explicit justification of why a DR has not been included, giving flexibility, but also transparency and allowing public inquiry.	May be considered a deviation from Set 1 decision of deleting rebuttable presumption (but there are reasons for its inclusion at this stage, list of DRs significantly shorter and focused).
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. It may be further combined with approach 2 above. This approach promotes a compromise between 1 and 6.	<p>The identification of material sustainability matters by the standard setter promotes a basic level of comparability and ensures a minimum content.</p> <p>Provides flexibility by leaving space to the materiality assessment at DR or data point level, which allows also to deal with the granularity problem (41 sectors VS 77 industries) and is consistent with the approach adopted at sector-agnostic level. This approach is close to approach 4 with an increased level of justification.</p>	<p>Policies/Actions/Targets cannot be omitted, while for Metrics the undertaking may omit a DR or datapoint. Concerns that many of the hard performance metrics may not be reported in favour of narrative disclosure on policies and commitments. This will undermine comparability where it is most needed.</p> <p>Concerns with the definition of the list of sustainability matters at granular level and how it will be used in practice by undertakings.</p>
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.	Would allow for very targeted and meaningful disclosure on an activity basis.	<p>Considered by the EFRAG Secretariat not suitable for standard setting, as it would be overly-complex, equivalent to issuing a standard per each group of NACE codes instead of a standard per each sector.</p> <p>By exception, some flexibility could perhaps be provided to allow for some DRs to apply just to specific NACE codes (however, could this create further issues, namely other DRs be considered as "not applicable" because they do not specify a NACE?).</p>

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<p>5. A subset of DRs is mandatory to companies in the sector (irrespective of NACE code).</p> <p>This approach is the “negative” of approach 4 – it seeks to recognize the minimum common denominator within the NACE codes in the standard and require those DRs as mandatory, Could be combined with approach 2.</p>	<p>Would promote comparability on the aspects that are considered comparable across the sector. Would allow the materiality assessment to prevail on all others.</p>	<p>May still lead to the non-inclusion of highly relevant DRs due to poor materiality assessments (could be combined with approach 2, to require transparency on when excluded and with approach 4, to only require that transparency for specific NACE codes in case of highly specific disclosures (e.g. calculation of embedded emissions of proved reserves).</p>
<p>6. All DR are mandatory</p>	<p>In principle, approach promotes high comparability.</p>	<p>With current sector definitions (sector granularity of 41 sectors, as opposed to, for example, the 77 sectors in SASB), would result in non-relevant information being mandated when an undertaking operates only in some of the NACE codes aggregated into the sector. Avoiding this problem creates complexity in the formulation of sector DRs and may not always be possible to avoid.</p>