Draft ESRS XBRL Taxonomy Methodology and Architecture Issues Paper

1. Objective and purpose of this paper

1   This paper illustrates the key methodological working assumptions and decisions adopted by EFRAG in developing the draft ESRS XBRL taxonomy for the first Set of ESRS.

2. Background

2   EFRAG issued on November 2022 the first set of draft ESRS. They will be issued as Delegated Act in June 2023.

3   The digital XBRL Taxonomy is designed for undertakings to report their sustainable reporting in a structured, machine-readable data format, helpful to the users of companies' sustainable information. The intent is for undertakings to digitally *tag* (or mark-up) sustainability information within their current human-readable reporting format, reflecting the content of the relevant requirements in ESRS.

4   The legal basis of the development of a digital taxonomy for the sustainability reporting is provided by the CSRD.

   (a)   The recital 55 states that "*Digitalisation creates opportunities to exploit information more efficiently and holds the potential for significant cost savings for both users and undertakings. Digitalisation also enables the centralisation at Union and Member State level of data in an open and accessible format that facilitates reading and allows for the comparison of data*" (ESAP Regulation).

   (b)   The art. 29d of the CSRD provides that "*undertakings (…) shall prepare their management report in the electronic reporting format specified in Article 3 of Commission Delegated Regulation (EU) 2019/815 (*) and **shall mark up their sustainability reporting**, including the disclosures provided for in Article 8 of Regulation (EU) 2020/852, in accordance with the electronic reporting format*

specified in that Delegated Regulation". Same provisions apply to the parent undertakings subject to the requirements of Article 29a[1].

(c) The EU legal process requires that EC shall adopt a delegated act (RTS) as an amendment of ESEF regulation (Reg. 2019/815 UE).

5   The adoption foresees the following processes:

(a) EFRAG will develop the Sustainability Reporting (SR) XBRL Taxonomy, including:

(i) ESRS XBRL taxonomy, which will reflect the approach and granularity of tagging that EFRAG, as advisory to the EC in charge of developing the content of draft ESRS, considers appropriate, i.e. technically consistent with the content of the draft ESRS delivered to the EC.; and

(ii) Article 8 XBRL taxonomy;

(b) ESMA is responsible for developing the draft RTS that relies on the taxonomy prepared by EFRAG[2]. The draft RTS regulates the implementation (i.e. timing, level of tagging) of the Sustainability Reporting XBRL taxonomies described in (a) above.

(c) European Commission to adopt the XBRL taxonomy following the submission of the draft RTS from ESMA.

6   While tagging of quantitative monetary and non-monetary data points is straightforward, designing the optimal tagging for the narrative disclosures requires more attention. It is worth noting that, differently from financial reporting, where narrative information in most of the cases accompanies and provides context to a quantitative data point, in sustainability reporting narrative statements are in most cases not explanatory of quantitative information, but they are qualitative data points themselves.

7   The ESRS have been designed to systematically structure the narrative corresponding to a given disclosure objective (or Disclosure Requirement – 'DR') into a list of (narrative) datapoints. The aim of the standard-setter in drafting ESRS has been to promote comparability across undertakings. This led to the identification, within a DR, of the elementary narrative data points that are conceptually separable, i.e. usable independently from the rest of the narrative text. Such elementary narrative data points are presented in the ESRS text as the different items in a list of data points composing a given DR.

---

[1] The undertakings subjected to the legal requirements are:
- Public interest entities namely "large undertakings, and small and medium-sized undertakings, except micro undertakings, which are public-interest entities as defined in point (a) of point (1) of Article 2" and in particular:
    o Listed undertakings (except micro-undertakings);
    o Credit institutions (Directive 2006/48/EC)
    o Insurance undertakings (Directive 91/674/EEC)
    o Othe PIE defined by each Member State
- Large groups that exceed the limits of at least two of the three following criteria on the balance sheet date of the parent undertaking:
    o (a) balance sheet total: EUR 20 000 000;
    o (b) net turnover: EUR 40 000 000;
    o (c) average number of employees during the financial year: 250.

[2] ESMA will launch their own public consultation to receive comments related in particular to the approach for tagging the sustainability report.

3. Timeline & Public consultation

8   At the time of preparation of this paper, EFRAG is reviewing the timeline of the XBRL taxonomy project, following the recent EC communications.

9   The project plan envisages EFRAG to issue the draft SR XBRL Taxonomy consultation in May 2023 and the final version of SR XBRL Taxonomy[3] by the end of September 2023. A more detailed project plan is attached in the appendix 1.

10   The draft ESRS XBRL taxonomy is being prepared on the basis of the November 2022 versions of the first draft of ESRS. Indeed, the ESRS delegated acts are to be adopted by the EC by the end of June 2023.

11   The EFRAG Secretariat works under the assumption that potential changes to the first set of draft ESRS before there are issued as Delegated Act will not have a significant impact on the overall architecture of the ESRS Taxonomy[4]. Accordingly, the public consultation would be primarily focused on the architecture of the taxonomy itself. The main purpose will be to define a well-structured taxonomy that caters for the ESRS specificities, such as the connectivity between ESRS 2 and ESRS related requirements in the topical standards, or the harmonization across all standards on the disclosure contents on policy, action and targets.

12   While EFRAG plans to consult on the draft ESRS XBRL taxonomy developed starting from the November 2022 drafts, the final ESRS XBRL taxonomy will reflect the wording in the final standards (Delegated Act).

---

[3] SR XBRL Taxonomy includes ESRS XBRL Taxonomy and the Art. 8 XBRL Taxonomy.

[4] Editorial changes, clarification of some contents.

4. Introduction to the ESRS XBRL Taxonomy

14   The digital ESRS XBRL taxonomy reflects the general architecture of the ESRS standards: two cross-cutting ESRS (ESRS 1 and ESRS 2) and ten topical standards (E, S, and G topics).

15   An integral component of the design of the ESRS XBRL taxonomy is the systematic consideration of the relationships between the cross-cutting standards and the topical standards, in order to reflect the architecture and contents of the standards into the taxonomy in a structured digital manner, whilst avoiding duplication of elements/tags.

ESRS 1

16   Regarding ESRS 1, the objective of the standard is to set out the general requirements that undertakings shall comply with when preparing and presenting sustainability-related information.

17   ESRS 1 will not to be directly converted into a digital format as it does not contain disclosure requirements. Nevertheless, its content will have to be reflected and converted as part of the digitalisation of the topical standards (i.e. par. 82 "*When preparing its sustainability statements, the undertaking shall adopt the following time intervals as of the end of the reporting period: (a) for the short-term time horizon: the period adopted by the undertaking as the reporting period in its financial statements; (b) for the medium-term time horizon: from the end of the short-term reporting period per (a) above to five years; and (c) for the long-term time horizon: more than five years.*").

ESRS 2

18   ESRS 2 establishes information to be mandatorily provided by the undertaking at a general level, across all sustainability topics.

19   In terms of digitisation, the content of ESRS 2 can be split into two parts:

(a)   General disclosures that contain a list of data points to be separately tagged (BP, GOV, SBM and IRO); and

(b)   *Disclosure Contents* that shall be included when the undertaking discloses information on its policies, actions, targets and metrics that address material impacts and/or risks and/or to pursue material opportunities. They shall be applied together with the Disclosure Requirements, including Application Requirements, provided in the relevant (draft) topical ESRS. They shall also be applied when the undertaking prepares entity-specific disclosures. In that context, these requirements shall be digitalised 'horizontally', i.e. within each topical standard.

20   The topical ESRS include additional specific requirements of a topical nature that are necessary to comply with certain DR of (draft) ESRS 2. In order to reflect the fact that they support the application ESRS 2 DRs, these items will be digitally connected as belonging to the ESRS 2 data points of the XBRL taxonomy. This reflects how the standards have been built, in so far, the ESRS 2 related disclosures and application requirements in the standards are extensions of the ESRS 2 content and, as a general rule, reported alongside ESRS 2 (exception being the options for SBM-3 for the human readable reporting with no impact on the XBRL taxonomy tagging).

Topical Standards (ESG)

21   The Topical standards are structured in two main blocks:

(a)   Disclosure Requirements that are related to ESRS 2, as already mentioned in the previous paragraph;

(b)   DRs that are specific to a topic; the information shall be digitalised within each topical standard, as these are disclosed at topical level.

The general structure of the ESRS (human-readable text)

22   The core of the DR is located in the main body of the standard and in a paragraph easily identifiable using the expression "shall disclose", "shall include", placed after the paragraph on the objective. Usually, individual data points are easily identifiable by separate items reported in a list of letters: a), b), c). These can be further disaggregated in a sub-list of items, identified by small roman numbers: i, ii, iii.

23   Application requirements (AR), in general, do not require separate disclosures but they describe how the mandatory information of the DR shall be disclosed. They also contain data points derived from "may disclose" or "shall consider" which are complementary to the datapoints in the main text. As an exception, for some topical standards (i.e. ESRS E1), the AR provide additional level of disclosures to be reported or integrated in the DR provided by the main body.

24   Whenever the standard provides options to report additional breakdowns or additional datapoints by using "*may*", those have been implemented in the XBRL taxonomy as well, as separate tags.

25   The requirements in ESRS are a combination of quantitative (monetary amount, percentage, other numerical items) and qualitative disclosures (narrative disclosure). Based on the current structure of the (draft) ESRS, narrative disclosures may represent up to 70% of the total data points. This reflects the nature of the sustainability information, where, differently from financial statements, the narrative information does not complement the monetary amounts presented in primary statements, but has the dignity of separate element of information.

5. Types of ESRS data points and corresponding tagging categories

26   The nature of the data points, such as quantitative or qualitative, is to be considered when preparing the XBRL taxonomy. The nature of a datapoint is characterised by two dimensions: target level of direct comparability between companies and usability of the data point as a separate information (and consequential ability for the user to automatically extract it).

27   EFRAG Secretariat has identified conventionally three different types of datapoints:

A.   Numerical, quantitative data points (metrics[5]);
B.   Non-numerical but comparable types (also called "semi-narrative");
C.   Narrative types (text blocks).

28   As a working assumption from EFRAG Secretariat, the following tables provides an overview of the different types of datapoints and a category label (A, B, C) defined by EFRAG.

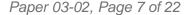| Data point type	Level of direct comparability between companies	Usability as a separate information	Category
Numerical data points (metrics), like GHG Emissions, Headcount, Water consumption, etc.	High	High	A
Monetary Data Points	High	High	A
Percentage Data Points	High	High	A
Boolean (Yes/No)	High	High	B
Enumeration Elements (Drop-Down), including multiple-choice	High	Medium	B
Dates	High	High	B
Short unformatted narrative disclosures (strings)	Medium	Low	B
Narrative disclosures (textblocks)	Low	Low	C

29   When implementing the ESRS XBRL Taxonomy, the data points categorised as Category A result in high level of direct comparability.

30   The elements in Category B can be easily tagged and provide a high level of direct comparability.

31   Narrative disclosures, mainly text blocks, are classified as Category C. In general, due to the nature of Category C data points, the level of direct and automated comparison, is lower than category A and B. In general, those data points are not

---

[5] Please note that in ESRS 'metrics' is referred to either quantitative or qualitative information, while we refer here only to quantitative data points.

limited in terms of size of the content, formatting or any other structured way. That means, that a text block tag can be used by an undertaking in an ESRS statement to tag a single sentence, a paragraph, one or more pages (including tables and pictures). Text block tags can also be overlapped, continued (e.g. on a different page) and nested[6].

32 As the human readable report is always the starting point for the tagging, for Category C there is an interaction between the way the human readable report has been designed and structured and the achievable level of direct comparability. In particular, for each DR, to the extent that the human readable report for a narrative content is structured following the same structure of the ESRS text, i.e. list of datapoints (a, b, c, and i, ii, iii), the resulting level of direct comparability will be higher. This reflects the fact that the tagged content per each item in the list (a, b, c, i, ii, iii depending on the highest level of granularity in the ESRS text) is "smaller" compared to a tag covering a full Disclosure Requirement. On the contrary, if the human readable ESRS report is not well structured and the individual narrative data points (a, b, c, and i, ii, iii) are not considered while drafting the text, the tagging will result in overlapping tags, which duplicates the content of a text block tag.

33 In addition to the narrative content itself, the following main advantages of text block tags have been identified for users:

 (a) The confirmation, that a certain disclosure exists in the report ("Disclosure checklist");

 (b) The usability as a separate item of information, i.e. possibility to navigate to the disclosure in the digital report by using special XBRL viewer software, knowing that the content of each narrative datapoint will be comparable across ESRS entities.

34 Category C can be implemented with a different progressive granularity, e.g. a tag that covers the whole Disclosure Requirement, or just one aspect of it. Tags that refer to one aspect (such as i, ii, and iii) are likely be nested in a digital report, i.e. large "parent" tag surrounds a page (such as a) surrounds i, ii, iii and a DR tag surrounds a), b), and c). Unless the human readable report is structured mirroring the exact a, b, c, i, ii, iii, structure, the same paragraph in the page may end up being tagged multiples times, referred to different levels of tagging.

35 An ESRS report that is well structured and tagged (mirroring the exact a, b, c, i, ii, iii, structure) serves the purpose of allowing different types of access to the information, depending on the needs of the users. Some of them will be interested in reading the entire narrative text corresponding to a DR, while others will be interested to read (or data aggregators to extract) the text of the narrative of a single elementary data point, knowing that it corresponds to a precise content, identified by the corresponding paragraph/sub-paragraph of a ESRS.

36 The level of tagging or usability of the information (at level of DR, at a, b, c, level or i, ii, iii) is defined as "level of nesting" (LoN) in this document.

---

[6] Nested means embedded in another tagged element.

6. Narrative tagging: working assumptions

37 User's and undertaking's perspectives are both to be considered in the development of the taxonomy.

38 The guiding principle in modelling the ESRS XBRL Taxonomy is to provide distinct elements for discrete parts of narrative information, that will be separately understandable to users of the sustainability report (user's perspective). At the same time, the distinct elements should also be easily identifiable for tagging (undertaking's perspective).

39 The public consultation will provide feedback on the proposed taxonomy, including whether the tagging of the narrative disclosures reflects adequately the ESRS structure, alongside with the usability of the data.

40 The development of ESRS XBRL taxonomy for the narrative disclosure requires first to look at the design of each DR, where a narrative content is articulated into one or two levels of narrative information aimed at covering a 'disclosure objective'.

41 The structure of the ESRS text has been developed having the future translation into XBRL language in mind whenever possible. Indeed, each DR presents a tree structure in which the overall content is split into individual elements, identifiable by a list of items reported under lett. a), b), c) or, at the level below, under roman numbers (i., ii., iii.).

42 These elements represent the key concepts that are candidates to become separately tagged data points in the XBRL taxonomy.

43 The proposed target tagging approach is that ESRS XBRL taxonomy should reflect this tree structure and thus the individual data points correspond to the level 3 of the *human readable* ESRS text (represented by the roman numbers (*i), ii), iii)*).

44 The working assumption followed in developing the XBRL taxonomy for narrative disclosures is:

(a) to have one tag per each separate datapoint, being it a), b) or c) above or (where they exist) i., ii., or iii; and

(b) to promote an XBRL taxonomy that is as close as possible to the text of the ESRS, consistent with the premise that the text has been already developed to separately identify each datapoint.

45 This working assumption reflects the fact that the human readable has been designed with the purpose to be easily converted into a digital format. Consistent with this assumption, the development of the XBRL taxonomy is not seen as a 'standard setting' exercise, but as a technical translation in XBRL language of the target level of granularity designed by the standard setter when developing the standard, without requiring in principle exercise of judgement, if not in specified cases. In particular, the challenge of the Level of Separability illustrated below.

46 The working assumption is to always tag the most granular level and the highest level (DR level), i.e. no need to tag the intermediate level. In fact, if the tagging of the disclosures with the most granular leaves N of the tree (e.g. N being the romaine or a), b), c) data points) covers the full disclosure, tagging of the parent narrative tag N-1 would not be required, thus avoiding to duplicate content for the users. Instead, the user that is interested in extracting and using the N-1 level of information, could extract and use the full content of a N-1 data point extracting a combination of all the (tagged) N children that constitute the N-1 data point, using the tree structure of the XBRL taxonomy. This assumes that the usability of an N-1 data point extracted via an aggregation of tagged N (children) is the same of a tagged N-1 data point.

47 The public consultation will also cover the way the narrative disclosure is organised in the XBRL taxonomy.

7. Level of Nesting (vertical view)

48 The structure described above can be visualized as a table tree format in which the relationship parent-child defines the hierarchy level of the narrative disclosures and it results in a multiple level of tagging, named "Level of Nesting" (LoN).

49 The example below shows the LoN for a specific individual data point.

Disclosure Requirement SBM-1 – Market position, strategy, business model(s) and value chain	Level of Nesting		
Disclosure of market position, elements of strategy that relate to or impact sustainability matters, business model(s) and value chain [text block]	1		
Disclosure of information about market position and key elements of general strategy that relate to or affect sustainability matters [text block]	2		1
Description of significant groups of products offered [text block]	3	2	
Description of significant groups of services offered [text block]	3		
Description of significant markets served [text block]	3		
Description of significant customer groups served [text block]	3		
Description of products and services under bans in certain markets [text block]	3		
Description of business model(s) and value chain [text block]	2		
Description of inputs [text block]	3	2	
Description of approach to gathering, developing and securing inputs [text block]	3		
Description of outputs and outcomes in terms of current and expected benefits for	3		
Description of main features of upstream value chain [text block]	3		
Description of main features of downstream value chain [text block]	3		
Description of position in value chain [text block]	3		

50 The co-existence of three different levels of tagging results in the same information being accessible in more than one levels of tagging (up to three levels). LoN reflects the level of hierarchies between elements in the parent-child relationship in order to reflect the ESRS structure and the decision taken by the standard setter on the LoS. The LoN is to be defined as a count of nested tags, starting at 1 with the largest tag that includes the following lower levels.

51 The current taxonomy reflects the hierarchies' level of the human-readable ESRS text (one tag for each level 1, 2 and 3), with the caveat that the tagging of the intermediate level is in principle not required and that the intermediate level is accessible via an aggregation of tagged elements in the most granular level.

8. Level of Separability (horizontal view)

52   The challenge to tag narrative disclosure is not only limited to the vertical view (LoN).

53   The identification of the concepts to be separately tagged concerns also the horizontal view, define as Level of Separability (LoS). This concept is different from Level of Nesting (LoN) even if they are interrelated concepts.

54   LoS intends to capture/identify individual elements to be separately tagged within the same text because of their potential usability as separate data points.

55   For instance, Risks and Opportunities can be tagged as one element or they can be split into two different data points (one for Risks and one for Opportunities), even if they are grouped together in a single paragraph (i.e. "*The undertaking shall disclose the following information (…) c) an overview of the process(es) used to identify, assess and prioritise sustainability-related risks and opportunities that have or may have financial effects*" - ESRS 2 par. 51).

56   The decision on the approach about implementing *Risk and Opportunities* as two separate data points has an impact on the taxonomy.

57   The example below from ESRS 2 – GOV 1 shows that the decision on the identification of the elements to be separately tagged may also regard the level 1 of the narrative disclosure:

GOV-1 – The role of the administrative, management and supervisory bodies

17. The undertaking shall disclose the composition of the administrative, management and supervisory bodies, their roles and responsibilities and access to expertise and skills with regard to sustainability matters.

19. The undertaking shall disclose the following information about the composition and diversity of the members of the undertaking's administrative, management and supervisory bodies:

(a) classification of members between executive and non-executive; (…)

20. The undertaking shall disclose the following information about the roles and responsibilities of the administrative, management and supervisory bodies:

(a) the identity of the administrative, management and supervisory bodies (such as a board committee or similar) or individual within a body responsible for oversight of impacts, risks and opportunities;

(b) how each body's responsibilities for impacts, risks and opportunities are reflected in the undertaking's terms of reference, board mandates and other related policies; (…)

58   In terms of XBRL implementation, "*Administrative, management and supervisory bodies*" can be treated as one tag element or can be split into two individual data points: one for Administrative/Management body and one for Supervisory body.

59   The decision is based on the potential usability of the data taking into consideration also the conceptual point behind its usability. Indeed, it is expected that undertakings provide the information on composition, role and responsibilities separately for each body (i.e. if the undertaking has adopted the two-tier system (dualistic governance model). Accordingly, this approach should be reflected into the taxonomy[7].

---

[7] In this particular case, the technical implementation consists of the creation of explicit dimensions because individual elements reported under lett a), b), c),.. are applicable to the three bodies.

9. Combination of the LoS and LoN (horizontal and vertical view)

60 Another example from ESRS 2 – SBM1 helps to navigate into the concept of LoS and LoN.

> *"The undertaking shall disclose the following information about the undertaking's market position and the key elements of its general strategy that relate to or affect sustainability matters:*
> *(a) a description of:*
> > *i. <u>significant groups of products</u> and/or <u>services offered</u>, including changes in the reporting period (new/removed products and/or services)";*
> > *ii. <u>significant markets</u> and/or <u>customer groups</u> served, including changes in the reporting period (new/removed markets and/or customer groups);*

61 The digitalisation of this particular DR requires, as first step, the identification of the individual elements as potential candidates (underlined) to become future data points in the taxonomy.

62 The table presents two options:

Low/medium LoS (option A)	High LoS (option B)
1. Disclosure of market position and strategy (Parent - level 1) 1.a) Description of significant groups of products and/or services offered (Child – level 2) 1.b) Description of significant markets and/or customer groups (Child – level 2)	1. Disclosure of market position and strategy (Parent - level 1) 1.a) Description of significant groups of products (Child - level 2) *1.a) Description of significant services offered (Child - level 2)* 1.b) Description of significant markets (Child - level 2) *1.b) Description of significant customer groups (Child - level 2)*

63 As shown in the example, it would be possible to identify different data points within the same paragraph but located at the same LoN (level 1 and level 2).

64 In this particular case, we believe that it does not have any beneficial value to implement the taxonomy according to option B because the undertakings cannot easily tag the information related to the products offered, separately from the services offered, or the information related to the significant markets from the customer groups, because it might be disclosed in a single text. It might not be important for analysts to get this in information separately tagged as well.

65 The option A should be the preferable approach and it is the basis of the current development of the ESRS XBRL taxonomy. This approach would offer the benefit of a reduction of the data points that do not have any real beneficial value to the users but with burdens for the undertakings.

66 Nevertheless, in case of Level of Separability, a reasonable level flexibility should be preserved in the preparation of the XBRL taxonomy because it helps to build a taxonomy that adequately capture the key information required by the standard setter along with the potential usability of the data.

10. Entity-specific content

Entity-specific XBRL taxonomy 'extensions'

67 The tagging of the financial statements required by ESMA (EU) requires the creation of an "entity specific taxonomy extension" to the XBRL base taxonomy (IFRS Accounting Taxonomy) for entity specific disclosures. Those taxonomy extensions are technically complex, because in fact undertakings have to create their own XBRL taxonomies, extending the XBRL base taxonomy. The "extensions" are required because the underlying (principle based) accounting standards or XBRL taxonomies do not provide specific XBRL tags for all items reported in the (financial) statements, which have been reported before tagging in XBRL became mandatory. XBRL Taxonomy extensions provide limited comparability by nature, only improved by the "Anchoring" mechanism developed by ESMA which requires undertakings to declare wider and narrower "base elements" as anchors for extension elements.

68 ESRS 1 sets the general requirement that when the undertaking concludes that an impact, risk or opportunity not covered or covered with insufficient granularity by an (draft) ESRS is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to cover such impact, risk or opportunity. This means that, next to the 'standardized' information prepared following the content of ESRS, ESRS sustainability reports are expected to also include additional non-structured disclosures. It is also worth noting that, pending the issuance and entry into effect of sector-specific ESRS, undertakings are expected to include sector-specific disclosures in their sustainability statements, that will be based on prevailing sectoral practices or other frameworks and initiatives. The role of entity-specific disclosures to cover the sector-specific dimension is expected to diminish once the sector-specific ESRS will be in place.

69 Reflecting this concept, the ESRS XBRL Taxonomy is designed to be an open XBRL taxonomy, which allows undertakings to extend the XBRL taxonomy for entity specific disclosures. However, at the same time the XBRL taxonomy is implemented in a way, that the use of taxonomy extensions per se is not required in the first place. That simplifies the technical effort for reporting entities to prepare reports with the ESRS XBRL Taxonomy and improves comparability at the same time.

70 Entity specific aspects, like subsidiaries, impacts, risks, opportunities, products & services, policies, targets, etc. must not be considered "extensions" because it can be expressed with an "XBRL typed dimensions"[8]. Additional optional breakdowns (e.g. GHG Emissions by Country as per E1-6) are implemented in the ESRS XBRL Taxonomy as well.

71 At the same time, XBRL taxonomy extensions should be limited to the necessary items, for the following reasons:

   (a) Taxonomy extensions are contracting to the idea of comparability. It should be avoided that taxonomy extensions can be "abused" to dilute standardised ESRS disclosures;

   (b) Technically, taxonomy extensions complex to create and often require specialised software solutions.

Entity's additions to ESRS datapoints

72 Each DR is identified by a first paragraph in bold which summarises the content of the DR, followed by:

---

[8]https://www.xbrl.org/specification/dimensions/rec-2012-01-25/dimensions-rec-2006-09-18+corrected-errata-2012-01-25-clean.html#sec-typed-dimensions

(a) A principles-based disclosure objective (illustrating in principles-based terms the purpose of the disclosure), and

(b) a list of elementary items of information to be reported, also referred to as 'datapoints'.

73 The advantage of combining a principles-based objective with a rules-based list of elementary information to be reported, is that the list is not per se exhaustive. In fact, its undertaking has to reflect its own specific facts and circumstances. Therefore, when other elements not listed in a), b), c), i), ii), or iii) are needed to meet the disclosure objective, the undertaking is expected to include entity's additional data points.

74 To cover such additional data points in a digital XBRL report with a tagging, there are two possible approaches:

(a) The text block tag that is supposed to cover the whole DR will automatically "include" the entity specific information. That means that the Level 1 of the narrative nesting levels should always be mandatory for tagging. In this case there is no tag for the 'other' elements and as such they cannot be extracted separately from the entire DR; or,

(b) per each Disclosure Requirement, the list of items that follows below the disclosure objective could be assumed to be systematically followed by an item of 'Other', that may or may not be populated/tagged depending on the undertaking's specific facts and circumstances. In terms of consequences for tagging, there will be an additional tag of 'other' information per each list of a), b) and c) and, where applicable, i), ii), and iii).

75 In theory, option 1 would still allow analysts to implicitly distinguish entity specific content (not being tagged additionally with a nested tag) from content that is defined in one of the data points below the DR and therefor tagged with an additional narrative tag.

76 The EFRAG Secretariat has a preference for option 2, as this provides a more explicit way of tagging entity specific additions.

11. Implicit tagging as 'not material for the undertaking'

77   The approach to the identification of the information to be included in the sustainability information is affected by the conclusions of the materiality assessment, following ESRS 1 paragraph 32 to 39. Items listed in paragraph 32 have to be reported in all cases, irrespective of the outcome of materiality assessment. For the rest, the undertaking may omit:

(a)   all the information required by an entire topical standard, except for ESRS 1 climate that is assumed to be always material;

(b)   all the datapoints in a DR related to a material matter; and/or

(c)   one or more datapoints in a DR related to a material matter.

78   The information that an item has been omitted as not-material is beneficial to the users of the digital report. As such, a tagging for the datapoints not included in the sustainability statements, as 'not material for the undertaking' would be beneficial and informative.

79   Technically, it is possible to tag an item in XBRL with the technical value "nil" (not in list), which needs to be set manually by the undertaking. But given the sheer number of theoretical data points considering the dimensions makes this approach impractical for the universe of all data points. For instance, the DR E1-6 requires reporting of GHG Emissions, and with all the possible breakdowns (700 ESRS Sectors, 250 Countries, Operating Segments, etc.) the number of data points easily exceeds 1 million.

80   However, EFRAG could develop a validation rule (warning), which checks if all the metrics other than those in the list of ESRS paragraph 32 are either tagged with content or tagged with "nil". This validation rule would signal a validation message (warning), informing the preparer as well as the receiving regulator and the auditor, that the undertaking has omitted X data points that are, as such, deemed to be "not material". This XBRL validation rule message might not necessarily be displayed to the users of the digital reports, because they might not perform a technical XBRL validation of the digital report.

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

81   According to ESRS 1 par. 7, ESRS use the following terms for DR and datapoints:

(a) shall disclose – indicates that the provision is prescribed by a DR or datapoint;

*(b) **shall consider** – indicates factors that the undertaking is expected to consider - if they are applicable - in the preparation of the reporting prescribed by a DR or datapoint; and*

(c) may disclose – indicates voluntary disclosure to encourage good practice.

82   The expression "shall consider" is used (in general) in the application requirements as a basis for the information required by the DR that is to be disclosed (in other words, the undertaking is expected to "take into consideration/account" some elements when reports something).

83   In terms of digitisation, no additional data points are to be identified after the use of expression "shall consider".

84   Nevertheless, the following examples show that the use of "shall consider" differs by standard to standard and it implies that the correct identification of the level of tagging requires also its contextualisation within the DR/AR.

Examples

ESRS E1

85   66. For the disclosure of potential to pursue climate-related opportunities required by paragraph 61(c), the undertaking shall consider:

(a) its expected cost savings from climate change mitigation and adaptation actions; and

(b) the potential market size or expected changes to net revenue from low-carbon products and services or adaptation solutions to which the undertaking has or may have access.

ESRS E4

86   AR 7. Phase 1 relates to the localisation of relevant sites regarding its interface with biodiversity and ecosystems. To identify these relevant sites the undertaking shall consider:

(a) developing a list of locations of direct assets and operations and related upstream and downstream value chain that are relevant to the undertakings business activities. Furthermore, the undertaking may provide information about sites for which future operations have been formally announced;

(b) listing the biomes and ecosystems it is interfacing with based on the list of locations identified under paragraph AR 7(a);

(c) identifying the current integrity and importance of biodiversity and ecosystem at each location taking into consideration the information provided in paragraph 22.

(d) developing a list of locations where the undertaking is interfacing with locations in or near biodiversity-sensitive areas taking into consideration the information provided in paragraph 22.

(e) identifying which sectors, business units, value chains or asset classes are interfacing with biodiversity and ecosystems in these material sites.

ESRS S1

87   AR 5. While own workers may not be engaging with an undertaking at the level of its strategy or business model(s), their views can inform the undertaking's assessment of its strategy and business model(s). The undertaking shall consider reporting on the views of the (actual or potential) materially affected own workers'

legitimate representatives (trade unions or works councils) that have insight into their situation.

88   *AR 10. The summary shall include the key information necessary to ensure a faithful representation of the policies in relation to own workers and, therefore, the undertaking shall consider disclosing explanations of significant changes (….)*

89   The EFRAG Secretariat proposes the following approach to be consistent across the standards:

(a)   "Shall consider" in the main body (see the example of ESRS E1 above) to be implemented in the taxonomy as separate tagging elements. This is because in this case 'shall consider' means 'shall consider disclosing';

(b)   "Shall consider" in the AR should not be separately tagged as being part of the information already tagged in the taxonomy;

(c)   Shall consider in the AR followed by other verbs (identifying, listing, etc…) needs to be better clarified.

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

90 The following examples from the ESRS illustrate the use of the term "including".

Example 1. ESRS 2

par. 20 lett c) : "*a description of management's role in assessing and managing impacts, risks and opportunities, including whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee*";

par. 21 "*The disclosure shall include a description of how the administrative, management and supervisory bodies ensure the availability of the appropriate skills and expertise to oversee sustainability matters, including:*
(a) the sustainability-related expertise that the bodies, as a whole, either directly possess or can leverage, for example through access to experts or training; and
(b) how it relates to the undertaking's material impacts, risks and opportunities".

par. 24 " *The undertaking shall disclose the following information:*
(a) whether, by whom and how frequently the administrative, management and supervisory bodies, including their relevant committees, are informed about material impacts, risks and opportunities"

par. 27 lett b) "*a description of the key characteristics of the incentive schemes including the proportion of variable compensation dependent on such metrics*"

par. 34 lett b) "*the risk assessment approach followed, including the risk prioritisation methodology*";

par. 46, lett d) "*the financial effects of material risks and opportunities, specifically:*

i. *the current and anticipated effects of material risks and opportunities on its business model and value chain;*

ii. *a description of where in its value chain material risks and opportunities are concentrated*"

Example 2. ESRS E1 (including)

par. 17: "*The undertaking shall describe the resilience of its strategy and business model(s) in relation to climate change. This description shall include:*
(a) the scope of the resilience analysis;
(b) how the resilience analysis has been conducted, including the use of climate scenario analysis as referenced in the DR related to (draft) ESRS 2 IRO-1 below and the related application requirement paragraphs; and
(c) the results of the resilience analysis including the results from the use of scenario analysis".

par. 32 e): "*the undertaking shall state whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5°C. The undertaking shall state which guidance or framework has been used to determine these targets including the underlying climate and policy scenarios*".

par. 60 c) "*the carbon prices applied according to the type of scheme and critical assumptions made to determine the prices, including the source of the applied carbon prices and why these are deemed relevant for their chosen application*"

par. 67 a) "*Where the implementation of an action plan requires significant operational expenditures (Opex)*
and/or capital expenditures (Capex) the undertaking shall:

(a) describe the type and amount of current and future financial and other resources allocated to the action plan, including the amounts, environmental or social objectives and relevant terms of sustainable finance instruments, such as green bonds, social bonds and green loans;"

91   The term "including" is used to indicate a minimum content, but also to leave flexibility to the undertaking to disclose additional information other than the disclosure provided by the DR.

92   In any case, the choice about the tagging of this element should follow the same rule presented above, i.e. tagging of a), b) and c) and, where they exist, i), ii) and iii).

93   In some cases, the disclosure requires information after "including" on numerical (i.e. par. 67 (a) "*including the amounts (..) of sustainable finance instruments*") or boolean items (i.e. par. 20 (c) "including whether that role is *delegated to a specific management-level position or committee and how oversight is exercised over that position or committee*"). In those cases, the ESRS XBRL Taxonomy is supposed to be implemented with additional "semi-narrative" tags.

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

94　The flowing examples from ESRS 2 and S1-3 illustrate the usage of the terms "whether" and "how".

> **ESRS 2** par. 27: "*The undertaking shall disclose the following information about the incentive schemes for members of the undertaking's administrative, management and supervisory bodies, where they exist:*
> *(a) whether performance is being assessed against specific sustainability-related targets and/or impacts – and if so, which ones. And whether and how sustainability-related performance metrics are being considered as performance benchmarks or included in remuneration policies*";
> par. 46: "*The undertaking shall disclose the material impacts, risks and opportunities resulting from its materiality assessment (see DRIRO-1 of this (draft) Standard), together with a brief description. The disclosure shall include the following:*
> *(a) how the material negative or positive impacts affect (or are expected to affect) people or the environment, the reasonably expected time horizons for those effects, whether the undertaking is involved with the material impacts through its activities or because of its business relationships (describing the nature of the activities or business relationships concerned and where in its value chain material impacts are concentrated), and whether and how the impacts originate from or are connected to the undertaking's strategy and business model(s);*"
> **ESRS S1-3**: "*The undertaking shall describe the processes in place to cover the matters defined within paragraph 2 of the Objective section by disclosing the following information:*
> *(a) its general approach to and processes for providing or contributing to remedy where it has identified that it has caused or contributed to a material negative impact on own workers, including whether and how the undertaking assesses that remedy provided is effective;*"

95　According to the general approach, elements classified in the category A and B (numerical and boolean respectively) provide high level of comparability. Therefore, all "whether" are translated into Boolean XBRL tags. Whenever a "whether" is follow by a "how", aimed to provide contextual information (narrative disclosure), it has been translated into a separate text block tag in the XBRL taxonomy.

96　However, it would also be possible to just have the "whether" tagged separately with a Boolean, and if the "how" is captured anyway with a parent block tag, an additional, nested narrative tag can also be omitted.

16. Considerations on EU Datapoints

97 The appendix C of ESRS 2 defines so call "EU data points", which are mandatory for reporting required by EU law and not subject to the materiality assessment.

<u>Example 1:</u>
DR E2-4 – Pollution of air, water and soil
Par. 27: *The undertaking shall provide the following separate disclosures on its own operations for the reporting period:*
> *(a) emissions of air pollutants generated by the undertaking;*
> *(b) emissions to water generated by the undertaking;*
> *(c) emissions of inorganic pollutants generated by the undertaking;*
> *(d) emissions of ozone-depleting substances generated by the undertaking;*
> *(e) (…)*

Par. 28: *The undertaking shall put its disclosure into context and describe:*
(a) the changes over time,
(b) the measurement methodologies; and
(c) the process(es) to collect data for pollution-related accounting and reporting, including the type of data needed and the information sources.

<u>Example 2:</u>
DR E3-1 – Policies related to water and marine resources
Par. 8. "*The undertaking shall disclose its policies implemented to manage its material impacts, risks and opportunities related to water and marine resources*" (indicator #7 in Table 2 of Annex 1 SFDR).
DR S1-1 – Policies related to own workforce
Par. 22: *The undertaking shall describe its human rights policy commitments* (indicator #9 in Table 3 of Annex 1 SFDR) that are relevant to its own workforce, including those processes and mechanisms to monitor compliance with the UN Global Compact principles and the OECD Guidelines for Multinational enterprises.*

98 The numerical disclosures required by par. 27 letter a), b), c) and d) DR E2-4 are SFDR data points to be reported irrespective of the outcome of the materiality assessment (according to ESRS 1 par. 32 "*Irrespective of the outcome of the materiality assessment, the undertaking shall always disclose the following information: b) the datapoints prescribed in topical (draft) ESRS that are listed in (draft) ESRS 2 Appendix C List of datapoints in cross-cutting and (draft) topical standards that are required by EU law which stem from other EU legislation*").

99 The contextual information (see par. 28 of the example 1) directly related to EU datapoints could be considered "to be always disclosed" as being part of the "super mandatory data points"; however this is not explicitly stated in ESRS 1 and Appendix C of ESRS 2, EU data points only mentions par. 27 (a), (b), (c), and (d) without any reference to other paragraphs of the DR.

100 In addition, the Example 2 shows that in some case the SFDR data point refers to a general content and not directly to one specific requirement/"data point" (see par. 8 of the DR E3-1 and par. 22 of DR S1-1).

101 In cases like Example 1, we propose implementing a technical solution in which the contextual information should be tagged as "EU data points" (to be always disclosed). This could be implemented as a validation rule as part of the ESRS XBRL taxonomy.

102 In cases like Example 2, we propose implementing a boolean tag (Yes/No) that reflects adequately the SFDR requirement in terms of whether the undertakings have implemented or not such policies.

Appendix 1: Timeline of the XBRL project