

# SEC 1 SECTOR CLASSIFICATION

Proposed changes – part 2

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# Overview: 2nd part of outcomes

## Critical changes

- Gaming
- Capital Markets
- Credit institutions
- Insurance
- Defence
- Sporting equipment and Toys
- Real estate and services
- Sales and Trade (see separate paper)

## Less critical changes

- Power production and Energy utilities
- Recreation and Leisure
- Health care and Services
- Electronics and electrical equipment
- Machinery and Equipment
- Medical instruments
- Motor vehicles
- Pharma and Biotechnology
- Textiles, Accessories, Footwear and Jewelleries
- Mining, Quarrying and Coal
- Oil and Gas
- Other transportation
- Road transport



## Generic changes

## Generic changes

- **The EFRAG Secretariat proposes to add explanations to the Basis for Conclusions on the following topics:**
  - sector materiality
  - the applicability of Sector standards to SMEs
  - the approach of preparation of sector-specific draft ESRS (SR TEG paper 13 December 2022)
  - the treatment of wholesale and retail sales in the sector classification (see separate paper)
  - the treatment of leasing activities (see separate paper)
  - the creation of a Biofuels sector (see separate paper)
  - the degree of alignment with EBA Pillar III
- A glossary of terms



# Gaming

# Gaming

## Gaming – arguments pro and contra of integration into Recreation and Leisure

### Pros

- Interoperability with GRI

### Contra

- Reasons why Gaming should be kept as a separate sector:
  - Debt risk
  - Impact to mental health
  - Erosion of social responsibility
  - Erosion of accountability
  - Compulsive habit
  - Different law framework (gambling is mostly regulated by state law).

**EFRAG Secretariat proposal: include Gaming into Recreation and Leisure as a separate subsector.**



## Capital Markets





## Capital Markets: new description



This sector includes undertakings involved in the following activities:

- eligible holding undertakings owning controlling levels of equity and with the sole purpose of owning subsidiaries active in asset management, banking or insurance. Only holdings that are on the list of financial conglomerates in execution of Directive 2002/87/EC (FICOD) are eligible.
- money-market and non-money market investment funds, i.e. collective investment schemes that raise funds by issuing shares or units to the public, of which the proceeds are invested primarily in financial assets;
- legal entities, not acting as collective investment schemes, organised to pool securities, estates and other financial assets, without managing, on behalf of shareholders or beneficiaries.
- the operation and supervision of financial markets other than by central banks and public authorities such as (futures) commodity contracts exchanges, securities exchanges, stock exchanges, stock or commodity options exchanges, crypto asset exchanges, administration of financial markets except insurance and pension funding, financial supervisory authority of financial service activities except insurance and pension funding.



## Capital Markets: new description



- activities such as relating to dealing in financial markets on behalf of others, securities brokerage, currency trading, debt-based crowdfunding offering loans and securities, ...
- financial transaction processing and settlement activities, including digital or internet based payment and provision and settlement activities for credit card transactions, activities of digital currency wallet providers, validation and mining for crypto assets deemed financial assets;...
- portfolio and fund management activities, on a fee or contract basis, for individuals, businesses and others.

**EFRAG Secretariat proposal: rewrite the Capital Markets sector description.**

Reason: the current description is not aligned to the underlying NACE activities.

# Capital Markets

EFRAG Secretariat proposals:

- Provide an explanation on the treatment of real estate funds
- Use the following NACE Class more than once:

NACE Class	Current sector	New sector	reason
L.66.19 Other activities auxiliary to financial services	Capital Markets	Credit institutions	Some of the activities such as investment advisory services, or activities of financial advisors in relation to mergers and acquisitions are executed by credit institutions



## Credit Institutions



## Credit institutions: new description



This sector includes undertakings involved in the following activities:

- receiving of deposits or close substitutes for deposits and extending of credit or other forms of lending funds. This could be through loans, mortgages, consumer credit cards, money order activities, etc. The activities are pursued by entities pursuing different business models such as universal banks, savings banks, credit cooperatives and unions, postal giro and postal savings banks and by specialised deposit-taking institutions.
- eligible holding undertakings owning controlling levels of equity and with the sole purpose of owning subsidiaries active in asset management, banking or insurance. Only holdings that are on the list of financial conglomerates in execution of Directive 2002/87/EC (FICOD) are eligible.
- financing conduits i.e. units created by a financial or non-financial group to raise or borrow funds and to remit those funds to their parent or another entity within the group.
- financial lease, including the financial lease of durable goods such as vehicles.



## Credit institutions: new description



- Financial service activities related to intermediation by incurring liabilities, in forms other than currency, deposits or close substitutes for deposits such as granting of consumer credit by non-depository institutions; provision of banking-like services without banking license, in co-operation with a licensed bank, money lending outside the banking system, loan securitisation, factoring and supply chain financing activities, ....
- Financial service activities primarily related to distributing funds other than granting loans, writing of swaps, options and other hedging arrangements, viatical settlement activities, own account investment and trading activities (venture capital, investment clubs);...

**EFRAG Secretariat proposal: rewrite the Credit Institutions sector description.**

Reason: the current description is not aligned to the underlying NACE activities.



# Insurance



## Insurance: new description



This sector includes undertakings involved in the following activities:

- Eligible holding undertakings owning controlling levels of equity and with the sole purpose of owning subsidiaries active in asset management, banking or insurance. Only holdings that are on the list of financial conglomerates in execution of Directive 2002/87/EC (FICOD) are eligible.
- related to term life insurance, permanent life insurance, underwriting annuities and life insurance policies, disability income insurance policies, accidental death, funeral and dismemberment insurance policies;
- related to provision of insurance services other than life insurance, such as accident insurance, medical and health insurance, fire and natural forces damage to property insurance, ....
- of assuming all or part of the risk associated with existing insurance policies originally underwritten by other insurance providers;





## Insurance: new description



- Provision of retirement income benefits exclusively for the sponsor's employees or members and other insurance products regulated as employer related funds;
- Provision of administrative services of insurance such as assessing and settling insurance claims;
- insurance agents and brokers in selling, negotiating or soliciting of annuities and insurance and reinsurance policies;
- closely related to insurance and pension funding such as salvage administration, actuarial services, pension and insurance advisory services.

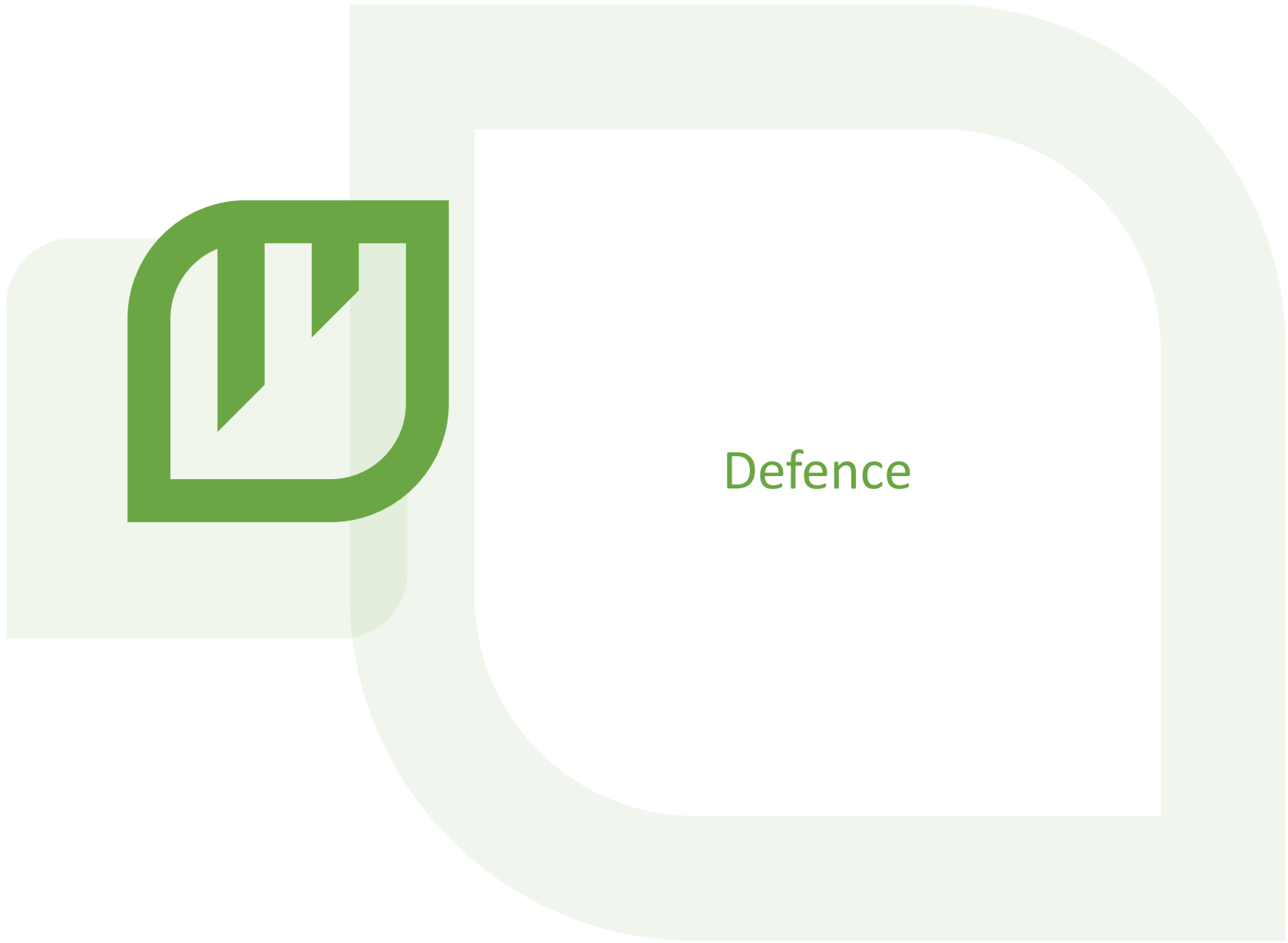
**EFRAG Secretariat proposal: rewrite the Insurance sector description.**

Reason: the current description is not aligned to the underlying NACE activities.

## Insurance

EFRAG Secretariat proposals:

- Provide an explanation in the Basis for Conclusions on the treatment of pension funds



Defence

# Defence

EFRAG Secretariat proposals:

- Rename sector to « Aerospace , Defence and Services », in order to align with SASB and GRI

[Background: views of stakeholders differ on the creation of subsectors, as some point out that some sustainability metrics relating to military vessels are classified information]

- Include government involvement in the sector description.
- Use the following NACE Class more than once:

NACE Class	Current sector	New sector	reason
C.26.30 Manufacture of communication equipment	Electronics and electrical equipment sector	Aerospace, Defence and Services	These activities are related to the Defence area.
C.33.16 Repair and maintenance of civilian air and spacecraft	Other transportation sector	Aerospace, Defence and Services	These activities are part of the sector.



## Sporting Equipment and Toys

## Sporting Equipment and Toys > Household durables

EFRAG Secretariat proposals:

- Merge the Sporting Equipment and Toys sector with the remaining parts of Construction Furnishings to become « Household durables », reason alignment with GRI
- Use the following NACE Class more than once:

NACE Class	Current sector	New sector	reason
C.30.92 Manufacture of bicycles and invalid carriages twice	Sports equipment and Toys	Medical instruments	Describing invalid carriages as part of the sports equipment and Toys sector is inappropriate

## NACE activities under the new Household durables sector

Original from Construction and Furnishings	Original from Sporting Equipment and Toys
C.23.41 Manufacture of ceramic household and ornamental articles	C.30.92 Manufacture of bicycles
C.31.00 Manufacture of furniture	C.30.99 Manufacture of other transport equipment n.e.c
C.32.91 Manufacture of brooms and brushes	C.32.20 Manufacture of musical instruments
	C.32.30 Manufacture of sports goods
	C.32.40 Manufacture of games and toys

## NACE activities under the new Household durables sector

Other	
C.15.12 Manufacture of luggage, handbags, saddlery and harness of any material	C.30.99 Manufacture of other transport equipment n.e.c. – manufacture of hand-propelled sledges – manufacture of sulkeys and donkey-carts
C.25.61 Manufacture of cutlery	C.32.99 Other manufacturing n.e.c. - manufacture of ear and noise plugs, e.g. for swimming and noise protection - manufacture of pens and pencils of all kinds ...
C.25.62 Manufacture of locks and hinges	T.95.29 Repair and maintenance of personal and household goods n.e.c.
C.25.99 Manufacture of other fabricated metal products n.e.c. - manufacture of metal household articles ...	
C.26.40 Manufacture of consumer electronics	
C.27.51 Manufacture of electric domestic appliances	
C.27.52 Manufacture of non-electric domestic appliances	
C.28.24 Manufacture of power-driven hand tools	

Some household durables are part of other ESRS such as motor vehicles or jewelry

The sector also incorporates specialised sales and leasing operations in accordance with previous SR TEG decisions





## Real estate and services

## Real estate and services

EFRAG Secretariat proposals:

- To move the following NACE Classes to Professional Services
  - O.81.21 General cleaning of buildings
  - O.81.22 Other building and industrial cleaning activities
  - O.81.23 Other cleaning activities
- Reason: the labour intensive activities are subject to different IROs than the real estate business.
- To adapt the sector description to consider these changes and the ones on the following slides.

# Real Estate and services

NACE Classes to use twice	Current sectors	Other sectors	Reason
F.41.00 Construction of residential and non-residential buildings	Construction and Engineering	Real estate	REITS engage in these activities when retrofitting existing buildings
F.42.21 Construction of utility projects for fluids	Construction and Engineering	Real estate	
F.42.22: Construction of utility projects for electricity and telecommunications	Construction and Engineering	Real estate	
F.42.91 Construction of water projects	Construction and Engineering	Real estate	
F.43.11 Demolition	Construction and Engineering	Real estate	
F.43.12 Site preparation	Construction and Engineering	Mining, quarrying and Coal Real estate	
F.43.13 Test-drilling and boring	Construction and Engineering	Real estate	
F.43.21 Electrical installation	Construction and Engineering	Real estate	
F.43.23 Installation of insulation	Construction and Engineering	Real estate	
F.43.24 Other construction installation	Construction and Engineering	Real estate	

**This slide mirrors the changes proposed to Construction and Engineering**

# Real estate and services

NACE Classes to use twice	Current sectors	Other sectors	Reason
F.43.31 Plastering	Construction and Engineering	Real estate	REITS engage in these activities when retrofitting existing buildings
F.43.32 Joinery installation	Construction and Engineering	Real estate	
F.43.33 Floor and wall covering	Construction and Engineering	Real estate	
F.43.34 Painting and glazing	Construction and Engineering	Real estate	
F.43.35 Other building completion and finishing	Construction and Engineering	Real estate	
F.43.41 Roofing activities	Construction and Engineering	Real estate	
F.43.50 Specialised construction activities in civil engineering	Construction and Engineering	Real estate	
F.43.60 Intermediation services for specialised construction services	Construction and Engineering	Real estate	
F.43.91 Masonry and bricklaying activities	Construction and Engineering	Real estate	
F.43.99 Other specialised construction services n.e.c.	Construction and Engineering	Real estate	

This slide mirrors the changes proposed to Construction and Engineering



## Power production and Energy utilities



## Power production and energy utilities: new description



The Power Production and Energy Utilities sector is comprised of undertakings that provide production, transmission, distribution, storage of and trade in electricity and related services. All types of electric power producers are included, for example, utilities that generate from solar, wind, hydro, geothermal, nuclear, biomass and thermal (coal, fuel oil and gas) fuels. It also includes production, distribution, storage and trade of gas, as well as the provision of steam and air-conditioning supply. The sector includes undertakings that operate the transmission and distribution systems that convey electricity from generating plants to end users.

Combined heat and power (CHP) is also included, independently if the power and heat are provided exclusively to a nearby facility or to the grid. Provision of thermal energy through heat and steam for city dwellings and industry is also included.

The sector also includes production of gas, such as biogas, from by-products of agriculture or from waste.

Production of clean hydrogen from electricity and renewable energy sources, as well as hydrogen, electricity and heat storage are also included.

Water and wastewater utilities as well as waste-related services are excluded from this sector. The sector also excludes the (typically long-distance) transport of the gas through pipelines.

# Power production and Energy utilities

EFRAG Secretariat proposals:

- Use the following NACE Class more than once:

NACE Class	Current sector	New sector	reason
C.35.30 Steam and Air Conditioning supply	Water and Waste	Power production and energy utilities	Important range of activities described within this NACE code (e.g. production and distribution of steam, hot water, storage of thermal energy etc.) refers to district heating and cooling activities, which are commonly carried out by UPE undertakings



## Recreation and Leisure



## Recreation and Leisure

EFRAG Secretariat proposals:

- To include aquariums in the sector description.
- Move NACE S.91.12 Archive activities to the sector Media

NACE Class	Current sector	Move to new sector	reason
S.91.12 Archive activities	Recreation and Leisure	Media	Electronic storage of archived material which is publicly available fits better under the Media sector



# Health care and services

# Health care and services

EFRAG Secretariat proposals:

- Move NACE R.88.91 Child-day care activities to the sector Education

NACE Class	Current sector	Move to new sector	reason
R.88.91 Child-day care activities	Health care and services	Education	<ul style="list-style-type: none"> <li>• value chain for child-day care is closer to Education</li> <li>• Impacts relate more to educational and social elements</li> </ul>



## Electronics and electrical equipment

# Electronics and electrical equipment

EFRAG Secretariat proposals:

- Use the following NACE Class multiple times in the following sectors: Electronics and electrical equipment, Chemicals and Motor vehicles

NACE Class	Current sector	New sectors	Reason
C.27.20 Manufacture of batteries and accumulators	Electronics and electrical equipment	Chemicals Motor vehicles	The economic activities that relate to the manufacturing of batteries are also part of undertakings in the Chemicals and Motor vehicles sector



## Machinery and Equipment

# Machinery and Equipment

EFRAG Secretariat proposals:

- Use the following NACE Class C.33.20 Installation of industrial machinery and equipment twice, once in Machinery and Equipment, once in IT.

NACE Class	Current sector	New sectors	Reason
C.33.20 Installation of industrial machinery and equipment	Machinery and Equipment	Information Technology	Installation of other industrial equipment such as mainframes and computers fits under the IT sector.



## Medical instruments



# Medical instruments

EFRAG Secretariat proposals:

- Use the following NACE Class C.30.92 Manufacture of bicycles and invalid carriages twice, once in Household durables, once in Medical instruments,

NACE Class	Current sector	New sector	reason
C.30.92 Manufacture of bicycles and invalid carriages twice	Sports equipment and Toys	Medical instruments	Describing invalid carriages as part of the sports equipment and Toys sector is inappropriate



## Motor vehicles



## Motor vehicles: new description



Under development by the Motor vehicles team

# Motor vehicles

EFRAG Secretariat proposals:

- Use the following NACE Classes, currently assigned to other sectors, also under Motor vehicles as these activities are inherent to the sector.

NACE Classes to use twice	Current sectors	Other sectors	Reason
C27.31 Manufacture of fibre optic cables	Electronics and Electrical equipment	Motor vehicles	Activities inherently part of the Motor vehicles or rather « Automotive » sector
C.27.32 Manufacture of other electronic and electric wires and cables	Electronics and Electrical equipment	Motor vehicles	
C.27.33 Manufacture of wiring devices	Electronics and Electrical equipment	Motor vehicles	
C28.13 Manufacture of other pumps and compressors	Machinery and Equipment	Motor vehicles	
C29.31 Manufacture of electrical and electronic equipment for motor vehicles	Electronics and Electrical equipment	Motor vehicles	
C.29.32 Manufacture of other parts and accessories for motor vehicles	Machinery and Equipment	Motor vehicles	Writing team suggestions
C.28.30 Manufacture of agricultural and forestry machinery	Machinery and Equipment	Motor vehicles	



## Pharma and biotechnology

# Pharma and biotechnology

EFRAG Secretariat proposals:

- Update the sector description as per below.
- Use the following NACE Class, currently assigned to Professional Services, also under Pharma and biotechnology.

NACE Class	Current sector	New sector	reason
N.72.10 Research and experimental development on natural sciences and engineering	Professional Services	Pharma and biotechnology	Research is an intrinsic part of the Pharma and biotech sector



## Pharma and biotech: new description



The Pharma and biotech sector includes the research, the development, the manufacture and the market of medicinal products. These products include chemical, biological, homeopathic, herbal medicinal products, as well as radiopharmaceuticals; biological medicinal products. These cover a wide range of products including immunological medicinal products, blood products, vaccines, recombinant proteins, monoclonal antibodies and advanced therapy medicinal products (i.e. gene therapy products, somatic cell therapy medicinal products, tissue engineered products).

Undertakings in the Pharma and Biotechnology sector develop, manufacture, and market a range of brand-name and generic medicinal products. A significant portion of the sector is driven by research and development, a high risk of product failure during clinical trials, and the need to obtain regulatory approval (marketing authorisation or registration).



Textiles, Accessories,  
Footwear and Jewelleries



# Textiles, Accessories, Footwear and Jewelleries

EFRAG Secretariat proposals:

- Use the following NACE Class T.95.29 Repair and maintenance of personal and household goods twice, once in Sales and Trade, once in Textiles, Accessories, Footwear and Jewelleries

NACE Class	Current sector	New sector	reason
T.95.29 Repair and maintenance of personal and household goods	Sales and Trade	Textiles, Accesories, Footwear and Jewelleries	This class includes repair and alteration of clothing



## Mining, Quarrying and Coal



## Mining, Quarrying and Coal: new description



The Mining, Quarrying and Coal sector is composed of Mining, Quarrying, Coal and Service sub-sectors.

The Mining sub-sector includes the extraction of metals which can be achieved by different methods, such as underground or surface mining, well operation, seabed mining, salars' exploitation, geothermal mining and others. Extraction of critical minerals such as copper, lithium, nickel, cobalt and rare earth elements is included in this sub-sector. Supplementary activities, such as crushing, grinding, washing, drying or sintering are also included. The activities in this sub-sector are classified under NACE division 07 Mining of metal ores (codes 07.10, 07.21 and 07.29).

The Quarrying sub-sector includes activities such as quarrying, rough trimming and sawing of large building stones, breaking and crushing of ornamental and building stones, the extraction and dredging of industrial sand, mining of natural phosphates and natural potassium salts, peat digging and preparation of peat to improve quality or facilitate transport or storage. It also includes extraction of salt, as well as mining and quarrying of various minerals and materials, as well as supplementary activities such as dredging of alluvial deposits, rock crushing or the use of salt marshes. The activities in this sub-sector are classified under NACE division 08 Other mining and quarrying (codes 08.11, 08.12, 08.91, 08.92, 08.93, 08.99).



## Mining, Quarrying and Coal: new description



The Coal sub-sector includes the extraction of solid mineral fuels through underground or open-cast mining and includes operations (e.g., grading, cleaning, compressing and other steps necessary for transportation etc.) leading to a marketable product. This sub-sector includes undertakings that mine coal and manufacture coal products, whether it concerns underground or surface mining, thermal or metallurgical coal. This sub-sector also includes manufacturing of coke oven products. The activities in this sub-sector are classified under NACE division 05 Mining of coal and lignite (codes 05.10, 05.20), as well as NACE code 19.10 Manufacture of coke oven products.

The Services sub-sector includes providing support services on a fee or contract basis to the three sub-sectors mentioned above. Such services can consist of exploration services like prospecting, draining and pumping services or test drilling and test hole boring. The activities in this sub-sector are classified under NACE 09.90 Support activities for other mining and quarrying.

# Mining, Quarrying and Coal

EFRAG Secretariat proposals:

- Basis: provide an explanation on the classification of geophysical activities, see NACE Class N.71.12 Engineering activities and related technical consultancy
- Use the following NACE Classes twice:

NACE Class	Current sector	New sector	reason
C.20.15 Manufacture of fertilisers and nitrogen compounds	Chemicals and polymers	Mining, Quarrying and Coal	Assigning to Mining allows aligning with recommendations of the Platform for Sustainable Finance
F.43.12 Site preparation	Construction and Engineering	Mining, Quarrying and Coal	The NACE Class includes site preparation for mining. If companies themselves have the relevant machinery and equipment, then they carry this out themselves, alternatively they commission construction companies.
E.38.32 Landfilling or permanent storage	Water and Waste services	Mining, Quarrying and Coal	The NACE Class includes permanent underground storage of waste in a deep geological cavity, eg a salt or potassium mine and includes storage of captured carbon dioxide. The first activity is standing practice in the mining sector to store mining waste in both solid and liquid form.



# Oil and Gas



## Oil and Gas: new description



The Oil and Gas sector is composed of upstream, midstream, downstream and service sub-sectors.

Oil and Gas upstream activities include the development, exploration and production of conventional and unconventional oil and gas reserves. Unconventional development includes the mining and extraction of oil sands, shale oil and gas, deep sea exploration and fracking, among other techniques. Activities of developing and/or operating oil and gas fields occur both for on-shore and off-shore reserves. Activities in this sub-sector are classified under NACE B.06.10 Extraction of crude petroleum and B.06.20 Extraction of natural gas.

Oil and Gas midstream includes the transportation and storage of natural gas, crude oil, and refined petroleum products. Activities involve gathering, transporting and processing of natural gas as well as transport of crude oil and refined products over land (pipelines, truck and rail) or water (tankers and barges), as well as storage terminals stocking oil and gas above and below ground. Activities in this sub-sector are classified under NACE H.49.50 Transport via pipeline.

Oil and Gas downstream activities include refining (classified under NACE C.19.20) and marketing of petroleum products, including operating gas stations and convenience stores (classified under NACE G.46.71 and G.47.30).



## Oil and Gas: new description



Oil and Gas services provide support activities and equipment to the Oil and Gas value-chain. Services include activities such as drilling, completing and equipping oil and gas on-shore and off-shore wells, as well as seismic surveying, well cementing, and well monitoring. The provision of equipment comprises selling or renting equipment used in the extraction, storage, and transportation of oil and natural gas. Services are usually provided on a contractual basis, and equipment is either purchased, leased or rented. Activities in this sub-sector are classified under NACE include B.09.10 Support activities for petroleum and natural gas extraction.

Integrated oil and gas undertakings are involved in activities in more than one of the above sub-sectors, typically across upstream, midstream and downstream activities. Such undertakings may need to report disclosure requirements and data points for each of the activities or apply specific disclosure requirements or data points.





## Other transportation

## Other transportation

EFRAG Secretariat proposals:

- Update the sector definition to consider
  - warehousing and support activities for transportation, such as operating, including traffic management, of transport infrastructure (e.g. railway lines, airports, harbours, tunnels, bridges...).
  - align with the underlying NACE activities;
  - traffic management and railway lines



# Road Transport



## Road Transport: new description

Under development by the Road Transport team



# Road Transport

EFRAG Secretariat proposals:

- Basis: to explain why NACE Class H.53 Postal and courier activities are included in Road Transport as well as in Other transportation
- Use the following NACE Classes twice:

NACE Class	Current sector	New sector	reason
Q.86.92 Patient transport by ambulance	Health and Services	Road transport	The economic activity relates essentially to transport and the proposed sector classification does not differentiate between the type of cargo



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