

This paper provides the technical advice from EFRAG SR TEG to the EFRAG SRB, following EFRAG SR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG SRB are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

General approach to sector classification

Cover Note

Objective

- 1 The objective of this session is to consider the SR TEG advice and obtain an approval on the general approach to sector classification.

Background

- 2 In their meeting of 28 February 2024, SRB members finalised their discussions on sector materiality with the following conclusions.
- 3 The sector standard identifies a list of SM commonly applicable to the undertakings operating in the Sector, which shall be taken into account by the undertaking when performing its MA.
- 4 The list will be developed starting from AR 16 and adding, when necessary, new sub-sub-topics (or sub-topics).
- 5 Paragraphs 33, 34 and 35 of ESRS 1 are applicable when determining the information to be reported on a material SM.
- 6 For metrics that are non-EU datapoints, if the undertaking omits information prescribed by either a DR or a datapoint of a DR, such information is considered to be implicitly reported as "not material for the undertaking".
- 7 The undertaking shall provide the conclusions of its materiality assessment regarding the list of SM, with a brief explanation, in relation into its specific facts and circumstances, including to the description of its business model, its locations and/or its products, of which matters are assessed to be material and which are not.
- 8 ARs clarify how the materiality assessment at DR level would work, i.e. which circumstances could justify the omission of a DR pertaining a material SM (e.g. to omit DRs related to impacts on indigenous community, the company needs not to have operations nor contact with such community).
- 9 All the members agreed to support this approach, except for three abstentions and two dissenters.

Outcome of EFRAG SR TEG discussion

- 10 On 8 May 2024 the EFRAG SR TEG approved the draft consultation document, integrated by a recommendation to EFRAG SRB to consult on having a subset of DRs always

mandatory. This is consistent with the outcome of the EFRAG SR TEG vote in approving the sector general approach in March 2023. The EFRAG SR TEG recommends consulting, in conjunction with the consultation on the general approach and with that of each of the sector's ED included in the first batch for consultation, on whether there should be some DRs always mandatory and if yes, which these DRs should be.

11 14 members attended the meeting and expressed their vote, other votes were collected in written: In particular:

- 17 votes in favour, subject to the changes agreed today and to the recommendation to the SRB to consult on possible DRs always mandatory: Chiara Del Prete, Philippe Diaz, Robert Adamczyk, Kati Beiersdorf, Per Tornqvist, Belen Varela, Giulia Genuardi, Jose Moneva, Elena Philipova, Sandra Adler, Sig Vitols, Paula Coelho, Luis Piacenza, Piermario Barzaghi, Antonino Vaccaro, Jean-François Coppenolle, Fiona Watson.
- 5 Abstentions:
 - o Eric Duvaud and Anne Claire Ducrocq provided their written intention to abstain for the following reasons: the objective it is not clear / too technical questions raised to the public will not bring relevant answers.
 - o Julia Kolzer and Olivier Scherer abstained as he has too recently joint SR TEG and prefers to express a more informed opinion after the public consultation.
 - o Carlota de Paula Coelho disagrees with the inclusion of additional ARs to limit the flexibility of undertakings in exercising the materiality assessment. She points out what will happen when undertakings conclude that a DR is not material for reasons different than the circumstances foreseen in the ARs.

12 One SR TEG member (Signe Andreasen Lysgaard) noted in writing to support the points captured by the minutes related to the consultation. Notably re recommending SRB to consult on always material DRs and revisiting the stakeholder categories.

13 The following aspects were discussed prior to the vote:

- (a) One SR TEG member raised a concern about the difference in the approach to the understanding of the materiality between the ESRS Set 1 and the Sector ESRS consultation document. It was pointed out that the real difference is that the voluntary datapoint in IRO 2 ('you may include a description of the matters that you found not material') is a shall in the sector ESRS. This is combined with the description of the business model, products etc. and it is not a separate datapoint for each SM, but a single explanation covering each of them. The EFRAG Chair explained that the reason of changing 'may' to 'shall' is justified by the higher level of presumption of relevance that the sustainability matters have at sector level. Also, ERAG has received the confirmation from the European Commission affirming that EFRAG is not bound by the approach to materiality presented in the delegated act.
- (b) One SR TEG member suggested to revise the aggregation of stakeholders into categories that is currently adopted by EFRAG in the public consultation. For example, unions (own workforce), which should be included as a separate stakeholder group, and environmental, social and governance NGOs should be considered separately. The EFRAG Chair supported this idea for clarity, despite it potentially increasing the report's length.

- (c) The EFRAG Chair asked which of the 2 approaches to reporting boundary the EFRAG SR TEG supported. whether for initiated a discussion on the Reporting boundary 1 and 2 and the level of disaggregation. One SR TEG member supported Reporting boundary 1 because it addresses both operational and financial control. The EFRAG Chair suggested changing the wording of paragraph 15, i.e. from 'Sector ESRS requires the inclusion [...]' to 'Sector ESRS may require the inclusion... when appropriate'. The EFRAG Chair concluded by stating that Reporting boundary 1 was chosen with no change in the application of Chapter 5, along with the suggested change in wording for paragraph 15.
 - (d) Additionally, the chapter 'Approach taken in preparing sector-specific ESRS' will be deleted due to its procedural nature and moved to the Basis for Conclusion of each specific standard.
- 14 The draft presented for this SRB meeting has also been subject to further editorial review after the EFRAG SR TEG approval.

Questions for EFRAG SRB

- 15 Do EFRAG SRB members approve the general classification consultation document?

Next steps

- 16 Base the sector descriptions in Appendix B on NACE nomenclature.

Agenda Papers

- 17 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 05-02 – General approach to sector classification; and
 - (b) Agenda paper 05-03 – General approach to sector classification compared.