

Sector ESRS – General Approach

Results of the survey

22 February 2023

EFRAG SRB

Question 1.1: consultation approach to ESRS SEC 1

Do you agree to consult on ED SEC 1 starting from April 2023 and to review the sector definition progressively, when each sector ESRS is issued?

| | |
|----------|----|
| Total | 12 |
| Agree | 8 |
| Disagree | 4 |

- More guidance needed, as NACE codes are not part of how a business operates and is managed
- Not clear what can be covered by, and a residual category 'others' for immaterial activities
- SEC 1 is contrary to the current general development of the society at large where we see an integration of goods and services (delivering a room temperature and light in stead of electricity and hot water)
- Need also a reconciliation to the taxonomy regulation/table mapping the relevant DRs to the NACE codes (i.e. to clarify that not all DRs in a sector-specific ESRS need to be reported under by all NACE codes in this sector)
- Need to close the sector definitions early as it will otherwise be a reporting (and restating) nightmare when first building reporting systems under the SEC1 and then having to change one-two years later due to new definitions in SEC 1
- Financial industry is concerned about different criteria of aggregating NACE codes; misalignment of criteria contained in EU Taxonomy, Pillar 3 reporting, FINREP reporting and ESRS might lead to confusion and inconsistencies

Question 1.1: consultation approach to ESRS SEC 1

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- Suggested questions for the consultation:
 - challenges in terms of data management and aggregation in combination with the current reporting systems
 - whether the narrow definitions outlined are most appropriate or whether another approach would be more relevant
 - the current alignment priorities (First SASB, then Pillar III and the Taxonomy) versus another priority

Question 2.1: Interaction with sector agnostic standards

- Do you agree with the proposed approach?

| | Incremental to sector agnostic | Consistent with always mandatory items in sector agnostic | Based upon a list of material sustainability matters identified in the sector standard |
|----------|--------------------------------|---|--|
| Agree | 11 | 9 | 8 |
| Disagree | 1 | 3 | 4 |
| Total | 12 | 12 | 12 |

Question 2.2: Interaction with sector agnostic standards

If you disagree which approach would you suggest to adopt?

- I would agree only as an exception
- A sector standard should not force mandatory disclosures (except for disclosures arising directly from EU-legislation also made mandatory on sector agnostic level (sustainable finance, Pillar III). The SEC 1 clearly indicate in paragraph 16, that "The undertaking may operate in several sector groups and sectors. Depending on the scope of its business activities, the undertaking shall consider the disclosure requirements of several sector specific standards". This clearly indicate that a materiality approach is the only consistent way forward.
- NOT making additional disclosures mandatory based on connection to ESRS E1, ESRS 2 or ESRS S1-9
- Sector specific ESRS should not pre-define "material topics". Eg. in O&G, for companies providing services, the more detailed climate DR/AR may not be relevant
- Let's not burden companies with too much information for which we are not certain they will be widely used. Suggest to reassess a couple of years after implementation if there is a need to make some sector DR/AR mandatory, but not immediately

Question 2.3: Interaction with sector agnostic standards

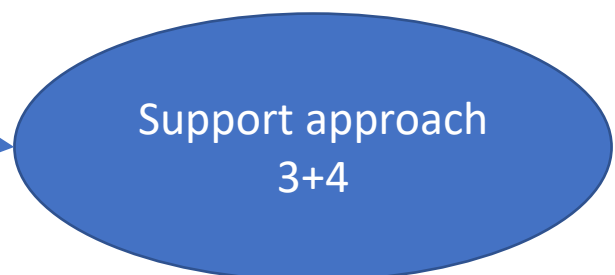
Please provide your comments, if any

- Essential that the sector ESRS are streamlined to the maximum extent possible and do not contain any unnecessary redundancies to the agnostic ESRS
- Sector ESRS should also provide guidance on interpretation and application of the sector-agnostic standards for a sector
- 1st – Report under the sector agnostic ESRS (mandatory requirements in paragraph 5 + materiality assessment of matters listed in ESRS 1 Appendix B). 2nd – Incremental reporting of sector ESRS (materiality assessment of list of sustainability matters that are deemed material for the sector)
- Re materiality: agree with basing this on a list of material sustainability matters, but would propose to make this list still subject to a further materiality assessment, e.g. to allow for not reporting on matters that are not material for the individual company due to its location, business model etcetera. To be discussed whether/how to disclose on this 'non-materiality'

Question 3.1 – Materiality approach

- Do you agree with Approach 3 (no DRs outside the materiality assessment)?

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|----------|----|
| Agree | 12 |
| Disagree | 1 |
| Total | 12 |



Support approach
3+4

Question 3.3: Materiality approach

Please provide your comments, if any.

- Only exceptionally additional mandatory DR
- Support approach 3, but companies should be at the centre of their materiality assessment, no mandatory layers. No justifications on immaterial information. In case of some DRs mandatory, suggest to do this at the DR-level (not a datapoint level) only and strictly limit the to DRs for which it is unquestionable material. Number of mandatory DRs might amount to e.g. 5 for a high-impact sector, but to 0 or 1 for a services sector
- Approach 3 + 4 would be more suitable in this regard. Approach 3 still allows companies 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, there should be a minimum mandatory list of DRs/datapoints in specific cases for which there is evidence that the market practice considers DRs/ datapoints material for a specific NACE code
- In Approach 3 not only metrics but also policies, targets and actions should be subject to materiality (and potentially omitted)

Question 4.1: Question 4 – Level of disaggregation

| | Proportionate scope | Material aspects affecting a specific site | Alternative information based on internal control | Plus overall mapping when appropriate |
|----------|---------------------|--|---|---------------------------------------|
| Agree | 9 | 8 | 8 | 8 |
| Disagree | 2 | 3 | 3 | 3 |
| Total | 11 | 11 | 11 | 11 |

Question 4.2: Question 4 – Level of disaggregation

If you disagree which approach would you suggest to adopt?

- No need to map activities as the other disclosure requirements are enough
- I only agree to the "proportionate scope", the rest impractical. I do not understand what asset level and project level mean. Asset may contain several projects, which may contain several sites; but not the reverse. "local area" is also unclear to me
- Reporting at a site level may happen, where there is a significant IRO matter to be reported for that site
- Not quite sure how would a "proportionate scope" would be implemented and enforceable

Question 4.3: Question 4 – Level of disaggregation

Please provide your comments, if any

- Need to narrow the expectation on what triggers a site-specific disclosure. Also in accordance with value chains – it is only when material for a site (or group of sites/locations) and only the material topics (and not all topics) that should be disclosed. Grouping of sites/locations with similar risks/impacts etc. should be possible
- Disaggregation should only occur as an exception, and not the rule, when strictly needed and in case of 'significant differences'.
- Disaggregation at site levels should not be mandatory but depends on a materiality taking the administrative burdens into consideration (proportionality).
- Re the "Alternative information based on internal control" item, we agree with using certifications such as EMAS or ISO as per the examples given. However, any truly "internal" controls must by definition remain internal and not be published (there is perhaps a problem of definition of "internal control" here?)
- An overall mapping, which would give an overview of site locations, may be more relevant and concise information

Question 5.1: – Structure

- Two chapters in main body and two in AR, new datapoints in main body, application material and voluntary datapoints in AR

| | |
|----------|----|
| Agree | 9 |
| Disagree | 2 |
| Total | 11 |

- The more the requirements are integrated (agnostic and sector), the easier it will be for the users. What is proposed sounds quite complex. With digitalisation, an entity should be able to build a consolidated version of the ESRS applicable to it
- The sector standards should follow the structure of the agnostic standards (the 4 pillars - Governance, strategy, IRO management, Metrics and targets), otherwise readers will be confused.
- I also suggest a mapping table somewhere in the sector standard that would show where, for the sub-sectors, additional DR/AR have been introduced, compared to the synthetic presentation/architecture of the DR in ESRS 2.

Question 5.3: Structure

Please provide your comments, if any

- Extra datapoints to existing agnostic DR's should be listed in the disclosure section without any extra text, as it is an amendment to an agnostic DR
- We note a difference of opinion between companies active in the basic raw materials, including energy versus companies further down in the transformation activities and services. The first group claims the same structure for all DRs and therefore disagrees with the proposed structure
- In the development of additional specifications for matters already covered in the sector-agnostic standards, it should be ensured to only require further specifications where the sector-agnostic requirements would lead to an obscurement of impacts for the sector.
- Exemptions of commercially-sensitive information