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Oil and Gas Exposure Draft

Cover Note

Objective

- 1 To update EFRAG SRB about the changes in the ESRS Oil and Gas Exposure Draft (ED, ESRS OG ED) following the last meetings with SRB that took place on 26 June and 4 July 2024 and **initiate the EFRAG SRB approval process.**
- 2 As agreed by the SRB, the approval of a due process document takes place in two steps: at this meeting the SRB received a presentation of the Exposure Draft as resulting from the changes agreed in the last SRB meeting in July 2024.
- 3 At the meeting on **17 September 2024** the EFRAG SRB members will be asked to vote on the Exposure Draft as presented in this meeting.

Background – role of sector ESRS - interoperability – due process and SR TEG vote

- 4 EFRAG is tasked by the CSRD to develop sector standard that will complement the requirements in sector agnostic ESRS. The first batch of draft sector standards will be delivered to the European Commission by the end of 2025, following a public consultation of four months. EFRAG has prioritised high impact sectors, starting from Oil and Gas ('OG') and Mining, Quarrying and Coal ('MQC').
- 5 Pending the issuance of sector ESRS, the transition provision of ESRS Set 1 (ESRS 1 paragraphs 130 and 131) require to undertakings that comply with ESRS to report relevant sector disclosure prepared on an entity-specific basis. The preparation of entity specific disclosure is a challenging task, as it entails a high degree of judgement in the selection and definition of pertinent information. The sector ESRS are expected to help in reducing the burden for undertakings currently (in the transition phase until effective date of sector ESRS) associated to entity specific disclosure as a substitute of sector information. For this purpose, sector ESRS are expected to provide:
 - (a) sector specifications to content of Set 1, i.e.:
 - (i) additional breakdowns or datapoints – that replace entity-specific disclosure;
 - (ii) additional application guidance that help preparers to apply Set 1 disclosures considering the sector context), including application guidance to policies-actions and targets disclosures in ESRS Set 1;
 - (b) additional metrics datapoints not included in Set 1 (that replace entity specific disclosure).

- 6 The EFRAG Secretariat noted that an overarching objective of this phase of standard setting prior to the ED has been to set the right balance between relevance and feasibility, which will further be tested in the consultation. As a result of the various iterations between the EFRAG SR TEG and SRB, the present version of the ED proposed for approval includes a number of new datapoints that represent approximately [23% – to be confirmed] of the total number of datapoints in ESRS Set 1. This cannot be understood as an additional % reporting burden to undertakings in scope of Set 1, as it replaces entity-specific disclosures. The EFRAG Secretariat considers this a reasonable figure to be tested in the consultation, in particular as OG is a high impact sector for which almost all the matters in Set 1 are most relevant.
- 7 The ED is the result of two years of research and active dialogue with sector stakeholders and with those that are members of the EFRAG OG community. This includes experts from variety of organizations, including representatives of the key European and international OG business associations, individual preparers from the sector, research institutions, key NGOs and institutional investor body representing majority of European asset managers and specialised in disclosures in the sector. The EFRAG SRB and SR TEG received an educational session by some of these stakeholders on 24 April 2024 to support the identification of the priority disclosures.
- 8 Following EFRAG due process, the launch of the consultation on the ESRS OG ED (which will last 120 days) will be accompanied by a field test with companies in scope of the standard and users of their reporting, with the purpose of testing the relevance and the feasibility. At the same time, a cost-benefit analysis will be run to support the SRB decision making, and make sure that in the final standard the costs of preparation of the reporting are justified by the direct and indirect benefits of it.
- 9 Consistent with requirements of CSRD to align the content of ESRS with the existing frameworks and standards, the ESRS OG ED draft leverage to the maximum extent possible on existing reporting standards. Among these, SASB, GRI and IPIECA indicators are important sources of disclosures in the standard. A dedicated issue paper (**Agenda Paper 05-03**) summarises the level of alignment with these sources as assessed by the EFRAG Secretariat.
- 10 Interoperability with ISSB and GRI is at the centre of EFRAG standard setting. At sector agnostic level, undertakings that apply ESRS are able at the same time (1) to claim compliance with GRI by reference and (2) for climate to produce disclosures that are able to respond to IFRS S2, provided that eight specific points of attention illustrated in Chapter 3 of the joint EFRAG IFRS interoperability guidance issued on 2 May 2024 are considered. EFRAG Secretariat notes that these are minor points compared to the amount of common disclosures and may result in a small number of disclosures to be added. Except for these eight points to consider, all the other datapoints in IFRS S2 are covered in ESRS. The work on interoperability is now continuing at sector level and benefits from the fact that, differently from Set 1, ISSB (SASB) disclosures are already available and are being used by EFRAG as the starting point. EFRAG and ISSB staff are exchanging regular information on EFRAG progresses on OG. EFRAG purpose is to avoid fragmentation and double reporting, while meeting all the other provisions in the CSRD.
- 11 Consistent with the CSRD, the sector ESRS have also to reflect the pertinent EU regulation. Alongside with the mapping with third-party standards and frameworks, EFRAG Secretariat performed an analysis of the datapoints in ESRS OG ED which are not stemming from third party frameworks, including those that are needed to reflect the EU regulation. This is presented in a separate issue paper (**Agenda Paper 05-04**).

- 12 On 6 and 7 March 2023 EFRAG SR TEG approved¹ on a consensus basis with 17 members taking part to the meeting to recommend to the SRB the Exposure Draft for ESRS Oil and Gas for issuance. The draft discussed in March 2023² was already the result of written consultation with the Sector community, EFRAG SR TEG and EFRAG SRB individual members. During this approval session, EFRAG SR TEG identified a number of changes that would support a streamlining of the draft (which have been reflected in the present draft) and noted the opportunity to monitor in the future the development of a European regulation on methane emissions to be aligned.
- 13 On 17 March 2023 EFRAG received the recommendation from the European Commission to deprioritise the work on sector ESRS to focus on implementation support. For this reason the EFRAG SRB did not complete the approval. In July, the Delegated Act was issued enacting the ESRS Set 1, with some changes in the approach to materiality compared to the November 2022 EFRAG drafts.
- 14 On 14 March 2023 the EFRAG SRB tentatively agreed on an approach to sector materiality that was different from the EFRAG SR TEG advice. The EFRAG SRB rediscussed subsequently the approach to sector materiality in a series of meetings between September 2023 and February 2024 and agreed to revise it.
- 15 EFRAG SR TEG approved the General approach to sector standards – consultation document on 8 May 2024. The approval was accompanied by a recommendation to EFRAG SR SRB to consult on whether some of the Disclosure Requirements in the draft sector ESRS should always be mandatory, and if yes to ask to constituents which these Disclosure Requirements should be.
- 16 The EFRAG Secretariat implemented the changes recommended by the EFRAG SRB in March 2023 and on 22 December 2023. Pursuant to this, updated draft was shared with the sector community for feedback. The received comments are summarised in the Agenda Paper 05.04 provided for the session on 26 June 2024. The feedback allowed to streamline and improve clarity of the draft, ensuring appropriate guidance in the content of the ED.
- 17 EFRAG SR TEG was subsequently updated on the changes to the standard, including the changes to the architecture identified by the EFRAG SRB (SR TEG 8 May 2024). On 6 June EFRAG SR TEG (in its new composition) was asked to re-approve the ESRS OG ED considering the significant changes since the 2023 approval. In that session, 23 members approved the ED and one abstained³. The approval was subject to a number of changes and streamlining suggestions that are reflected in the current version.
- 18 The key critical issues raised by sector community with regards to the March 2023 TEG-approved version were discussed at the EFRAG TEG on 6 June 2024, which resulted in a number of modifications agreed and reflected in the ED presented to SRB, as approved by TEG on the same date.
- 19 The exposure draft was discussed on 26 June and 4 July 2024 with SRB. The discussions with SRB allowed to collect feedback of members and implement their comments in the updated version of ED.

¹ A full report on EFRAG SR TEG vote March 2023 is available to EFRAG SRB in the shared folder of EFRAG SRB 10 March 2023 as item 04.01 for that meeting.

² Available here: <https://www.efrag.org/en/news-and-calendar/meetings-calendar/efrag-srb-meeting-10-march-2023>

³ A full report on EFRAG SR TEG vote is available at <https://www.efrag.org/system/files/sites/webpublishing/Meeting%20Documents/2311031507118832/05-01%20OG%20ED%20Cover%20note%20SRB%20240626.pdf>

Clarifications to be added in the Basis for conclusions

- 20 On the SR TEG approval session on 8 June 2024, the following points for Basis for Conclusions were agreed:
- (a) Explain to constituents that **this ED is not necessarily setting a precedent in terms of length and granularity**. This is because the OG sector is a particularly complex sector, where almost all of the matters at agnostic level are relevant and others need to be added. This will not be the case in many other sectors to come;
 - (b) the SR TEG discussed whether there should be a datapoint disclosing who is financing, considering the need of this sector to transition. The decision was not to add a datapoint but to explain in the Basis for Conclusions why this aspect has not been retained in the standard;
 - (c) Map with TNFD guidance. Interactions with TNFD are in place to get the staff comments on the current draft.

List of questions for consultation

- 21 During the EFRAG SR TEG and SRB discussions leading to the present draft, a number of contentious issues were discussed and it was agreed to propose a specific question in the consultation in the ED. Appendix 1 is the result of it. Please note that depending on their nature, some of them could be addressed in the field test and not in the general questionnaire for consultation.

Question for EFRAG SRB members

- 22 Do EFRAG SRB members agree with the changes proposed in the updated version of draft?
- 23 Do EFRAG SRB members agree with the clarification to be added to the Basis for Conclusions above?
- 24 Do EFRAG SRB members have comments on the list of consultation questions in Appendix 1? This is not a full consultation questionnaire (which will be sent for written input) but focuses on the contentious points that emerged during the discussion.

Next steps

- 25 The plan is that the SRB votes on the approval of this Exposure Draft on 17 September.
- 26 Following the approval, the Secretariat will finalise the basis for conclusions that will accompany this ED and draft the consultation questionnaire and field test procedures.
- 27 Written input of EFRAG SR TEG and SRB will be sought on the Basis for Conclusions and Consultation questionnaire in advance.

Agenda papers

- 28 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 05-02 – ESRS Oil and Gas Exposure Draft – clean version
 - (b) Agenda paper 05-03 – ESRS Oil and Gas Exposure Draft – mark up with the previous version
 - (c) Agenda paper 05-04 – Mapping with third party standards
 - (d) Agenda paper 05-05 – Illustration of datapoints in ESRS OG ED not delivered from other standards.

APPENDIX 1 – LIST OF SPECIFIC QUESTIONS FOR THE CONSULTATION

- 29 In its approval session (6 and 7 March 2023), the EFRAG SR TEG recommended to consult on:
- (a) a possible restructuring of the ED to differentiate the content by segment. This can be done in the question related to the navigation table (Appendix XX of the ED).
 - (b) a possible additional DR on communication with customers:
The undertaking shall explain to which extent its corporate communication aligns with globally established targets related to climate neutrality or nature positive economy and how it ensures that its sustainability communication is clear, transparent, substantiated, and specific. If this communication relates to the topics and sub-topics within one of the five environmental agnostic standards, the undertaking shall explain how it ensures consistency with the undertaking's disclosures under the identified standard.
- 30 On 8 May 2024 EFRAG SR TEG approved SEC 1 subject, among other things to the recommendation to consult on whether some of the Disclosure Requirements in the draft sector ESRS should always be mandatory, and if yes to ask to constituents which these Disclosure Requirements should be. The EFRAG Secretariat considers that the right place for this question is ESRS OG ED. On 6 June 2028 EFRAG SR TEG reiterated this point, noting that the approval of the ED is conditional to the recommendation to consult on:
- (a) this ED in conjunction and not separately from SEC 1;
 - (b) whether some DRs should be mandatory and if yes which they are, making this question prominent in the questionnaire (to mark the difference with the other questions).
- 31 On 6 June 2024 in the approval session the EFRAG SR TEG conditioned the approval to the following questions in the consultation:
- (a) By site disclosures: consult on whether there should be a cap to the number of sites in OG 1 (e.g. 20?) or whether another figure would be more appropriate, of if no figure is better;
 - (b) By site disclosures: consult specifically on the usefulness and feasibility of the individual by-site disclosures in the ED;
 - (c) whether the list of sustainability matters in the ED is complete;
 - (d) whether the operational control can be shared between two different entities like joint control or not and what to do when different entities control different steps and parts of the process/site;
 - (e) whether the adoption of LEAP approach should stay as voluntary (as it is now) or should be mandatory;
 - (f) whether the methodology to evaluate the reserves should be the SEC one (as it is now) or another methodology and whether flexibility should be allowed to adopt different methodology. While the adoption of the SEC approach allows to avoid double reporting for the undertakings that are also subject to the SEC regulation, it may not be used by all the undertakings in scope (something to investigate during the field test);
 - (g) whether the datapoints on electric equipment which is needed for Pillar 3 disclosures should stay in this ED or be moved to a different sector, knowing that in Oil and Gas

companies this segment of activities may be below the threshold to apply a sector standard and therefore cover those datapoints;

- (h) whether the use of water stress instead of water risk is the right approach;
- (i) the datapoints on cybersecurity that are also applicable to other sectors and the relationship between ESRS and the directive NIS 2;
- (j) whether the introduction of an additional datapoint to cover energy produced by country is necessary/appropriate.
- (k) Financial effects datapoints broadly speaking: location of this information (sustainability statement/financial statements), nature: shall versus application requirement or good practices (may), see also next point.

32 As illustrated to the EFRAG SRB on 4 July 2024⁴, the EFRAG Secretariat proposes to include the following questions that pertain to possible additional datapoints **on anticipated financial effects**. This is a new area of reporting for which some additional datapoints mainly based on observed practices have been already incorporated in the ED, while others would be investigated in the consultation. This is essential also to progress in practice with connectivity of financial and sustainability reporting. The questions are listed below.

33 Consult on the need to include in the OG ED the following additional disclosure related to ESRS E1-1 Transition plan for climate change mitigation:

- (a) A breakdown of the assets presented in the PP&E disclosure as follows:
 - (i) Assets dedicated to upstream activities,
 - (ii) Other Oil and Gas assets
 - (iii) Assets allocated to renewables and
 - (iv) Other assets.
- (b) Assets dedicated to upstream and for the other Oil and gas assets (which assets are the most at risk of transition). For those assets:
 - (i) What would be the reserves left in 2030 and 2050 or what is the average remaining useful time; and
 - (ii) What is the depreciation methodology.
- (c) For all assets, on which assets is an Asset Retirement Obligation (ARO) or a dismantling / decommissioning provision is recognised. For those assets:
 - (i) What is the accounting policy for booking the provision, and in particular what is the triggering event to book such a provision;
 - (ii) What is the average retirement date for the assets on which an ARO is booked, and
 - (iii) Sensitivity analysis if the assets were retired earlier (e.g., 5 years earlier).
- (d) If the company reports that the GHG emission reduction targets are not compatible⁵ with limiting global warming to 1.5°C as required in ESRS E1-4, what would be the

⁴ See docs uploaded for the joint SR FR Boards meeting on 26 June 2024 available at <https://www.efrag.org/system/files/sites/webpublishing/Meeting%20Documents/2311031509224006/05-01%20OG%20Anticipated%20financial%20effects%20EFRAG%20Joint%20RB%20240626.pdf>

⁵ The EFRAG secretariat proposes to re-discuss this datapoint, waiting for directions to emerge from the EFRAG Transition Plan guidance drafting. This is expected to be in time for the launch of the consultation.

additional impairment if the target was compatible with limiting global warming to 1.5°C.

- 34 In addition to the datapoints on anticipated financial already included in the ED, would you consider that the requirements currently in ESRS E1-9 are sufficient? If so, please explain why.
- 35 Could you indicate real life examples of potential write-off situations not captured by financial reporting?
- 36 Usefulness and feasibility of the following datapoints:
 - (a) What is the accounting policy for booking the provision, and in particular what is the triggering event to book such a provision?
 - (b) Potential additional liabilities that do not meet the recognition criteria at the reporting date.

APPENDIX 2 – ITEMS TO BE TRANSFERRED TO SEC1 (SRB tentative decision on 4 June 2024: move to SEC 1 as common to all sectors)

Material matters and materiality of information [SRB tentative decision on 4 June 2024: move to SEC 1 as common to all sectors]

1. The table in paragraph 18 of this [draft] ESRS identifies the list of matters that are most relevant to the sector. This list supports the undertaking's materiality assessment, in conjunction with the list in paragraph AR 16 of ESRS 1.
2. Irrespective of the outcome of its materiality assessment, the undertaking shall always disclose the information required by this [draft] ESRS that are sector specifications of:
 - (a) ESRS 2 *General Disclosures* (i.e. all the Disclosure Requirements and data points specified in this draft ESRS that are sector specifications of ESRS 2); and
 - (b) of the Disclosure Requirements (including their datapoints) in topical ESRS related to the Disclosure Requirement *IRO-1 Description of the process to identify and assess material impacts, risks and opportunities*, as listed in ESRS 2 *Appendix C Disclosure/Application Requirements in topical ESRS* that are applicable jointly with ESRS 2 *General Disclosures*.
3. The undertaking shall apply paragraphs 33, 34 and 35 of ESRS 1, when determining the information to be reported on a material sustainability matter, prescribed by the requirements in this [draft] ESRS.
4. For metrics prescribed in this [draft] ESRS that are not datapoints in Appendix C: *List of datapoints that emanate from EU Law*; if the undertaking omits information prescribed by either a Disclosure Requirement or a datapoint of a Disclosure Requirement, such information is considered to be implicitly reported as "not material for the undertaking".

Disclosure requirements

ESRS 2 General disclosures

ESRS 2.IRO2.OG – Conclusions on material matters and reported information [SRB tentative decision on 4 June 2024: move to SEC 1 as common to all sectors]

1. The undertaking shall disclose the conclusions of its materiality assessment regarding the list of sustainability matters presented in the table in paragraph 18 of this [draft] standard, providing a brief explanation, in relation to the undertaking's specific facts and circumstances, of which matters in the list have been assessed to be material and which have not. Specific facts and circumstances include the undertaking's business model, its specific activities, the location of its sites, its products, and its business relationships. This disclosure may be presented alongside the information prescribed by paragraph 38 of ESRS 2.
2. When the undertaking omits the Disclosure Requirements prescribed by this [draft] ESRS that are applicable to a subsector of activity (refer to the Appendix C of this [draft] ESRS) which the undertaking does not operate, the brief explanation of paragraph 22 does not need to cover the Sustainability Matters which the omitted Disclosure Requirements refer to.
3. The list disclosed following paragraph 56 of ESRS 2 shall include the Disclosure Requirements of this [draft] sector ESRS complied with in preparing the sustainability statement.

Appendix A: Defined terms

[ITEMS IN BLUE TO BE MOVED TO SEC 1]

This appendix is an integral part of this Exposure Draft and has the same authority as the other parts of this Exposure Draft.

Term	Description
Contract	<p>The full text of any contract, concession, production-sharing agreement or other agreement granted by, or entered into by, the government which provides the terms attached to the exploitation of mineral resources or coal.</p> <p>The full text of any annex, addendum or rider which establishes details relevant to the exploitation rights described above or the execution thereof.</p> <p>The full text of any alteration or amendment to the documents described above.</p>
Cyber security	<p>Cyber security relates to activities necessary to protect network and information systems, the users of such systems and other persons affected by cyber threats. It constitutes a comprehensive framework encompassing tools, policies, security concepts, safeguard measures, guidelines, risk management approaches, actions, training, best practices, assurance, and technologies that can be used to protect the cyber environment, the organisation and user's assets.</p> <p>Organisation and user's assets encompass a broad spectrum, including connected computing devices, personnel, infrastructure, applications, services, telecommunication systems, and all transmitted and/or stored information within the cyber environment .</p>
Flaring	<p>means the disposal of methane by controlled combustion, in a device designed for that purpose;</p> <p>Gas flaring is the burning of natural gas associated with oil extraction.</p> <p>When gas needs to be disposed of, it may be flared (burned off), or vented (released without being burned).</p> <p>Flaring converts gas to CO₂, while venting releases CH₄ directly to the atmosphere.</p>
Licence	<p>The full text of any license, lease, title or permit by which a government confers on an undertaking(s) or individual(s) rights to exploit mineral resources or coal.</p> <p>The full text of any annex, addendum or rider that establishes details relevant to the exploitation rights described above or the execution thereof.</p> <p>The full text of any alteration or amendment to the documents described above.</p>

Local supplier	Suppliers in the community surrounding operations, a region within a country, or a country.
Near	A facility, site or asset is near a certain area, if it can have a direct material impact on that area, irrespective of the actual distance that separates the two.
Business site	Business site means business activities owned or operated by the undertaking, where the undertaking can exercise control. It includes the land, buildings or installations, fixed or movable property required for the running of operations above as well as below ground.
State aid	<p>State aid is defined as an advantage in any form whatsoever conferred by national public authorities to undertakings on a selective basis. Therefore, subsidies granted to individuals or general measures open to all enterprises are not covered by this prohibition and do not constitute State aid (examples include general taxation measures or employment legislation).</p> <p>To be State aid, a measure needs to have these features: there has been an intervention by the State or through State resources which can take a variety of forms (e.g. grants, interest and tax reliefs, guarantees, government holdings of all or part of a company, or providing goods and services on preferential terms, etc.); the intervention gives the recipient an advantage on a selective basis, for example to specific companies or industry sectors, or to companies located in specific regions; as a result, competition has been or may be distorted; the intervention is likely to affect trade between Member States.</p> <p>Despite the general prohibition of State aid, in some circumstances government interventions are necessary for a well-functioning and equitable economy. Therefore, the Treaty leaves room for a number of policy objectives for which State aid can be considered compatible. These exemptions can be found in legislation relevant to State aid.</p> <p>For non-EU countries, state aid refers to financial assistance received from any government.</p>
Venting	Emissions from various processes in a facility and routed to the atmosphere as a result of planned and selected operational solutions. Emissions usually happens through dedicated pipe systems where the natural gas is discharged at a safe place. Venting (direct emissions) as a solution may be selected for several reasons; safety issues, high levels of inert gases (mainly nitrogen) in the gas, pressure conditions of the facility or purely cost-related preferences (very expensive to eliminate/reduce emissions relative to the amount of emissions) or a combination of this. In many cases venting can be avoided by good design. The options may be recycling of gas or flaring.
Work stoppage	Work stoppages include strikes, defined as a temporary work stoppage, and lockouts, defined as the total or partial temporary

	closure of one or more places of employment or the hindering of the normal work activities of employees, which one or more groups of workers carry out with a view to enforcing or resisting demands or expressing grievances, or supporting other workers in their demands or grievances.
Politically Exposed Persons (PEP)	An individual entrusted with a prominent public function.