

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the 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.

Sector Classification SEC 1 Cover Note

Objective

- 1 The objective of this session is to seek SR TEG approval on updated versioning and proposed changes to the sector classification (SEC 1) before going for public consultation. I.e. upon receiving agreement from SR TEG and SRB of the versioning and proposed changes, the EFRAG Secretariat will update the documents.

Overview of the papers and session

- 2 This session includes the following papers:

Paper	Number
05-01 Sector classification SEC 1 – cover note	Overview Questions to stakeholders Past discussions Questions to SR TEG
05-02 Sector classification SEC 1 – proposed changes	NACE 2-1 update Detailed proposed changes Relation with EU Taxonomy Alignment with GRI Sales and Trade – rental and leasing
05-03 – Sector classification SEC 1	Slidepack
05-04 – Sector classification SEC 1 – NACE 2-1	New version of SEC 1 aligned to NACE 2-1
05-05 – Sector classification SEC 1 compared	SEC 1 compared NACE 2-1 versus 2-0
05-06 – Sector classification SEC 2 (for background)	General approach to sector-specific ESRS Mappings with other classification systems (Pillar III, SASB, GRI, FINREP) Detailed sector descriptions
05-07 – Sector classification Basis for Conclusions (for background)	Basis for Conclusions
05-08 – Mapping ESRS SEC 1 (2-0) vs EU Taxonomy (for background)	Mapping ESRS vs EU Taxonomy activities and vice versa



3 It is noted that the papers 05-06, 05-07 and 05-08 are submitted for background only as these will be subject to knock-on changes following the outcome of the current session.

4 The EFRAG Secretariat aims to schedule this session as follows:

Topic	Timing	Papers
Aligning SEC 1 with NACE 2-1	30 min	05-02 05-04 05-05
Redefining relationship SEC 1 with EU Taxonomy	30 min	05-02 05-08
Proposed detailed modifications to SEC 1	45 min	05-02 05-04
Questions to stakeholders during public consultation	30 min	05-01 05-03

5 The EFRAG Secretariat submits two versions of the sector classification for discussion.

(a) The new default version contains the sector classification aligned to the NACE 2.1 update which will be applicable as from 2025 onwards (paper 05-04);

(b) The previous sector classification aligned to NACE 2.0 is also provided (paper 05-05);

6 In addition to the two versions being submitted, the EFRAG Secretariat proposes a number of detailed changes to the sector classification (paper 05-02). These changes are as follows:

(a) Based on work of the sector teams re-assigning particular economic activities to other sectors, including in some cases the creation of new sectors;

(b) Establish a new way to express how ESRS Sector standards and EU Taxonomy relate;

(c) Alignment of sector scope with GRI; and

(d) Re-assign wholesale, rental and leasing Sales and Trade activities to the manufacturing sectors they relate to.

Proposed questions to stakeholders in the consultation

7 In the following section, the questions are listed that the EFRAG Secretariat proposes to ask to stakeholders during the consultation:

Nr	Question	Answer type
1	Do stakeholders agree with integrating the ESRS Sector classification with NACE 2-1?	Y/N
2	Do stakeholders agree with creating a new ESRS sector Biofuels?	Y/N
3	Do stakeholders agree with creating a new ESRS sector Metallurgical industry using the NACE activities 24.10, 24.41, 24.42 and 24.45?	Y/N



4	Do stakeholders agree to move NACE activity 01.15 Growing of tobacco into the Agriculture ESRS Sector standard?	Y/N
5	Do stakeholders agree to move NACE activity 33.15 Repair and maintenance of civilian ships and boats into the Machinery and Equipment ESRS Sector?	Y/N
6	Do stakeholders agree to move NACE activity 35.30 Steam and air conditioning supply into the Power Production and Energy Utilities ESRS Sector?	Y/N
7	Do stakeholders agree with renaming the ESRS Sector “Chemicals” into ESRS Sector “Chemicals and polymers”?	Y/N
8	Do stakeholders agree with renaming the ESRS Sector “Constructions and Furnishings” into ESRS Sector “Mineral Products”?	Y/N
9	Do stakeholders agree with referring to EU Taxonomy activities only indicatively in ESRS Sector standards? Please explain.	Y/N + narrative
10	Do stakeholders agree to assign wholesale activities to the underlying manufacturing ESRS Sector? Please explain.	Y/N + narrative
11	Do stakeholders agree to include rental and leasing activities with the manufacturing activities they relate to or with the Transportation ESRS Sector? Please explain.	Y/N + narrative
12	Do stakeholders agree with the alignment of sector scopes between ESRS Sectors and GRI sector standards?	Y/N

Questions for EFRAG SR TEG

- 8 Does EFRAG SR TEG agree with describing the sector classification aligned to the NACE 2.1 update as a default as well as the changes to the classification this entails? Please explain.
- 9 Does EFRAG SR TEG agree with the proposed changes to the sector classification based on the research done? Please explain.
- 10 Does EFRAG SR TEG agree to conduct further research on aligning the sector scope with the current GRI sector scope? Please explain.
- 11 Does EFRAG SR TEG agree with re-assigning wholesale, rental and leasing Sales and Trade activities to the manufacturing sectors they relate to? Please explain.
- 12 Does EFRAG SR TEG agree with the new proposal to express the relationship between ESRS Sector standards and EU Taxonomy? Please explain.
- 13 Does EFRAG SR TEG agree with the questions to stakeholders? Please explain.

Next steps

- 14 Upon agreement of SR TEG and SRB members with (some or all of) the versioning and proposed changes, the EFRAG Secretariat will adapt the documents in relation to the sector classification as a preparation for public consultation. The updated documents will be shared with SR TEG and SRB members for final approval before public release.



Earlier discussions

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- 15 Alignment with Taxonomy:
 - (a) Some SR TEG members expressed concern that if alignment cannot be achieved between ESRS Sector standards and EU Taxonomy, companies would need to present their business adopting two different logics in the same Management Report.
 - (b) At the same time, others acknowledged that the purposes of ESRS and Taxonomy are different, so full alignment in all cases was not necessary.
 - (c) In any case, reconciliation table needed in SEC 1 and careful communication of the approach needed in the Exposure Draft.
- 16 One SR TEG member found the comparative example provided for NACE F.42.22 misleading as the entire F section was construction, but for Taxonomy purposes this code was analysed under Energy.
- 17 This view was supported from a banking perspective. As long as capex and opex were disclosed in line with SBM 1 of ESRS there were no issue for banks.
- 18 SR TEG members suggested adding two extra examples to explain the interaction between NACE codes and the sector composition. One example where at consolidated level there was one activity of a subsidiary that was not significant and one example where at consolidated level where an activity was not generating revenues at group level and how the subsidiary exemption in ESRS 1 would be applied. Also, in example 3 the threshold of application was to be mentioned.

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- 19 Comments were raised about the understandability of certain aspects such as identifying the reportable sectors and Part 2 (General approach to sector specific ESRS) as well as other editorial changes.
- 20 Clarification was asked on how Part 2 would be dealt with during the consultation.
- 21 It was suggested to use a two-digit alignment between ESRS sector standards and the EU Taxonomy
- 22 It was asked to explain what was in the scope of sector standards and what was not in that scope (paragraph 38). The EFRAG Secretariat pointed out that different examples existed in the document explaining the application of sector standards.
- 23 It was suggested to move some of the introductory part from Part 1 to Part 2 allowing constituents to comment on it during the consultation. Constituents should reflect whether it is more useful to put the introductory part in a central document or repeat it in every separate document.
- 24 It was requested to add an example on the transport sector.

Agenda Papers

- 25 In addition to this cover note, the following papers have been provided for this session:
 - (a) Agenda paper 05-02 – Sector classification SEC 1 – proposed changes;
 - (b) Agenda paper 05-03 – Sector classification SEC 1 – slidepack;
 - (c) Agenda paper 05-04 – Sector classification SEC 1 aligned to NACE 2-1 (default version clean);



- (d) Agenda paper 05-05 – Sector classification SEC 1 (default version compared);
- (e) Agenda paper 05-06 – Sector classification SEC 2;
- (f) Agenda paper 05-07 - Sector classification – Basis for conclusions; and
- (g) Agenda paper 05-08 – Mapping ESRS SEC 1 (2-0) vs EU Taxonomy.

