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## Oil and Gas Exposure Draft

### Cover Note

#### Objective

- 1 To initiate the approval of EFRAG SRB for the ESRS Oil and Gas Exposure Draft (ED, OG ED). As agreed by the SRB, the approval of a due process document takes place in two steps: the first meeting is an “initiation”, i.e. the SRB received a presentation of the Exposure Draft as approved by EFRAG SR TEG and of the main points discussed at SR TEG.
- 2 At the meeting on 4 July the EFRAG SRB members will be asked to vote on the Exposure Draft as presented in this meeting.

#### Background

- 3 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 November 2025, following a public consultation of four months. EFRAG has prioritised high impact sectors, starting from Oil and Gas and Mining Quarrying and Coal.
- 4 On 6 and 7 March 2023 EFRAG SR TEG approved to recommend to the SRB the Exposure Draft for ESRS Oil and Gas for issuance. The draft discussed in March 2023 was already the result of written consultation with the Sector community, EFRAG SR TEG and EFRAG SRB individual members.
- 5 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.
- 6 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.
- 7 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 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.
- 8 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 this session. The feedback allowed to streamline and improve clarity of the draft, ensuring appropriate guidance in the content of document. The key critical issues raised by sector community on 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 for this meeting.

### EFRAG SR TEG discussion and approval

- 9 The EFRAG SR TEG approved the OG ED on 6 June 2024, subject to a number of changes and a number of questions to be asked in the consultation as described below:
  - (a) The ED was approved by 23 members: Philippe Diaz, Jean Francois Coppenolle, Julia Kolzer, Luis Piacenza, Per Torwsquin, Olivier Scherer, Robert Adamczyk, Christoph Toepfer, Sig Vitols, Chiara Del Prete, Belen Varela, Klaus Hufschlag, Luc Hendrickx, Luca Bonaccorsi, Anne Claire Ducrocq, Piermario Barzagli, Kati Beiersdorf, Kose Moneva, Vanya Rusinova, Giulia Genuardi, Piotr Biarnaki, Elena Philipova, Signe Andreasen Lysgaard, Carlota de Paula Coelho.
  - (b) Eric Duvaud abstained as he considers that EFRAG should approach the sector programme with a fresh view on the architecture including moving the Application Requirements to the main body of the standard.
  - (c) Sandra Adler, Antonino Vaccaro, Fiona Watson did not attend the meeting.
- 10 The approval is also 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).
- 11 The following Changes to the ED were agreed and are visible in the markup available as Agenda Paper 05-03:
  - (a) Editorial changes:
    - (i) delete all the words that are not useful/editorial review provided that we do not change the content of the datapoints;
    - (ii) Have only once the statement that PAT are covered by ESRS 2 and place it next to the list of SM;
    - (iii) 83 b) i) streamline two datapoints into one;
    - (iv) Significant non-compliance => delete significant;
  - (b) Clarify:
    - (i) the definition of site;
    - (ii) Midstream what does it mean? Upstream/downstream not to be confused with value chain;
    - (iii) Number of cybersecurity incidents limited to those made public;
    - (iv) Make cybersecurity words more adherent to OG (critical infrastructure);
    - (v) Clarify that changes in investments are forward looking;
    - (vi) Contingent liabilities instead of 21 (d);
    - (vii) Change water stress instead of water risk (quantitative not qualitative focus);
    - (viii) Abatements: change the name of the DR to carbon capture and storage;

- (ix) Appendix C: draft a specific AR for the non -binary examples (e.g. work stoppages), consistency of wording: positive (material/non-material) versus negative (omissions), add more explicit wording when needed, complete the empty lines;
  - (x) Appendix F: in appendix present the cumulative list from Set 1 + OG. Explain per each SM how this is to be understood (sector only, agnostic+sector, agnostic only) and how to use the corresponding DRs (i.e. that this is to be used in conjunction with AR 16, as AR 16 has additional items that are not “most relevant to the sector” but nevertheless should be considered + when something is in common you should refer to both topical and sector ESRS.
- (c) Additional shall datapoints
- (i) business strategy and direction for transition;
  - (ii) Breakdown revenues and capex between conventional / unconventional (stop by 2030) + include a definition of “unconventional”;
  - (iii) SBM 1 – activity indicators add “others” to reconcile with total revenues;
  - (iv) Forward-looking information: climate action benchmark amount of capex net zero by 2050 scenario;
  - (v) Price of oil barrel used on impairment testing;
  - (vi) Accounted provisions for lawsuits;
  - (vii) Add asset security as a sustainability matter;
- (d) Disclosure by site: OG 1: Remove the number of sites; limit the list to “major” sites; on specific disclosure requirements on impacts currently disaggregated by site in the ED: no cap to major sites, but with efficiency: where for impacts, aggregation works ask major sites (sum of volumes) and complete list of sites when this is necessary;
- (e) Additional AR to be introduced:
- (i) AR for blacklist and other references;
  - (ii) explain how the PAT works for the matters below “industrial hazards” and alike;
  - (iii) source of the CO2 storage;
  - (iv) land use equivalent concept for offshore;
  - (v) illustration of financial risks: limited access to finance for bans as possible risk and opportunity;
  - (vi) reference to the OG material of TNFD;
- (f) Move contents to other places:
- (i) Move content of Appendix B1<sup>1</sup> (sub-sub-sub topics for PAT disclosures) in the main body and have it as “shall consider”.

The appendix B1 was created as a result of the streamlined architecture. It includes sub-sub-sub matters that are to be covered in the PAT description when the undertaking has PAT items that cover any of the sub-sub-sub matters. The EFRAG SR TEG considered on one hand the possible loss of information if these datapoints were to be transformed in simple examples in

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<sup>1</sup> Appendix B1 at page 42 of this link:

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2405221511146334%2F04-02%20ESRS%20Oil%20and%20Gas%20Exposure%20Draft%20%E2%80%93%20clean%20version.pdf>

AR. On the other hand, the SR TEG considered the number of datapoints triggered by having all these items as a “shall disclose”. In particular, given the general approach to PAT, the “shall disclose” would mean that per each sub-sub-sub matter in B1 the undertaking would have to disclose that it does not have PAT in place. This was perceived as excessive. A compromise was found in the “shall consider” approach. The agreed direction is to have only one datapoint of “shall disclose” per each matter, while keeping the “shall consider” for the sub-sub-sub matters. The EFRAG SR TEG understands that this formulation should be sufficiently robust to trigger disclosure whenever the sub-sub-sub item is covered by PAT (i.e. it is a sort of “disclose if applicable”, i.e. disclose every time that you have a PAT in place).

- (ii) Move cross sector definitions to SEC 1;
  - (iii) Include list of SM in main body (while maintaining a detailed Appendix F);
  - (iv) Eliminate hydrogen to move it to renewable energy.
- 12 For financial effects metrics, add “if not already disclosed in the financial statements, the undertaking shall disclose (...). If this is disclosed in the financial statements, it may be incorporated by reference.
- 13 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. 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.

#### Questions for consultation or field-test recommended by SR TEG when approving the ED

- 14 The following questions for the consultation were agreed:
- (a) By site disclosures:
    - (i) 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, or if no figure is better;
    - (ii) Consult specifically on the individual by-site disclosures in the ED;
  - (b) Whether the list of sustainability matters in the ED is complete;
  - (c) 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;
  - (d) Whether the adoption of LEAP approach should stay as voluntary (as it is now) or should be mandatory;
  - (e) 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);

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

### EFRAG Secretariat considerations after the EFRAG SR TEG approval

- 15 The EFRAG Secretariat while implementing the SR TEG change described at para. 12 (f) (i) above, has considered that a possible alternative could capture better the spirit of the SR TEG discussion. This would “when reporting on its policies actions and targets related to the closure of assets, the undertaking shall specify whether and how those policies, actions and targets do address: a)....”. This would allow for a more appropriate fit with the ESRS architecture, triggering a datapoint disclosure only when pertinent (i.e. when the policy actually cover a specific aspect) without a multiplication of datapoints (disclosing when each of the specific aspects are not covered by the policy).
- 16 In the review after EFRAG SR TEG, the EFRAG Secretariat identified the following two datapoints currently in Governance that would better fit in the Social disclosures under ESRS S4 Consumer and/or end-users within the sub-sub-topic of responsible marketing practices:
- (a) *the number of open cases before courts or other competent authorities at the end of the reporting period that concern claims about misleading commercial practices or public communication related to sustainability;*
  - (b) *the number of similar cases resolved during the reporting period and the outcomes of such cases.*
- 17 The EFRAG Secretariat notes the use of the term “operational site” is creating some confusion with the notion of “operational control”. In the editorial review after the SRB approval a more appropriate term may be identified.
- 18 The EFRAG SR TEG Chair has informed the EFRAG SR TEG members about these three items and has asked for written input ahead of this EFRAG SRB meeting. A verbal update may be provided if appropriate.

#### Question for EFRAG SRB members

- 19 Do EFRAG SRB members agree with the changes proposed in the section “EFRAG Secretariat considerations after the EFRAG SR TEG approval”?
- 20 Do EFRAG SRB approve to issue this ED in consultation, after finalization of the Basis for Conclusions?
- 21 Do EFRAG SRB members agree with the proposed questions for consultation (noting that they are not all the questions that we will ask)?

### Next steps

- 22 **The plan is that the SRB votes on the approval of this Exposure Draft on 4<sup>th</sup> July.** No other documents will be uploaded for the 4<sup>th</sup> July on this topic.
- 23 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.
- 24 Written input of EFRAG SR TEG and SRB will be sought on the Basis for Conclusions and Consultation questionnaire in advance.

### Agenda papers

- 25 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 March 2023 version
  - (c) Agenda paper 05-04 - Summary of the feedback from sector community including appendices detailing EFRAG Secretariat research on Beneficial ownership and Cybersecurity.