

DRAFT ESRS SET 1 XBRL Taxonomy - Consultation questionnaire and invitation to comment

1. Given the mandate received by EFRAG as described in the Explanatory Note and Basis for Conclusions and its role in developing the draft ESRS, EFRAG has developed this draft XBRL taxonomy as the correct or most appropriate transposition of the first set of ESRS into a digital XBRL format, considering the usability of the XBRL taxonomy from the user's perspective (i.e., the perspective of the stakeholder group that will ultimately use the digitally tagged ESRS statements).

Q1: Do you agree that the digital Draft ESRS Set 1 XBRL Taxonomy adequately represents the ESRS disclosure requirements? Yes/No/Please explain your answer.

RJ ESG WG: Yes. Overall, the **Draft ESRS Set 1 XBRL Taxonomy** adequately represents the ESRS Disclosure requirements.

We noted however that the proposal includes very granular taggings, which is intended to serve **higher comparability of the reported information and hence better insights** for the users. On the flip side, we foresee rather significant workload for preparers – higher than for the financial statements under ESEF. Another risk we see is that with the ESRS disclosure requirements evolving, and a **need in reporting** maturity growth for most undertakings, we expect significant adjustments in the process over the first years **adding to the reporting burden** and consultancy spend.

We also see that **the XBRL taxonomy might hinder implementation of some provisions of ESRS, like e.g. incorporation by reference**. The taxonomy makes the **application of this option** more complicated, so many preparers might choose to simply avoid it, which would also be a step back **from the principles of integrated reporting**.

As a result, we recommend EFRAG to perform an **appropriate field testing for the XBRL Taxonomy, considering perspective of both preparers and users. Additionally, we recommend to provide further application guidance, in particular if companies are aiming to have more integrated way of reporting (e.g. incorporation by reference)**.

2. While the XBRL taxonomy is also useful for preparers to structure the ESRS sustainability statement (see section 6.2. of the Explanatory Note and Basis for Conclusions), the digitally tagged ESRS bring benefits particularly to the users (analysts, data providers, financial institutions, investors, regulators, etc.). Therefore, the user perspective has been considered for the implementation (as laid out in the first five chapters of the Explanatory Note), and interviews with users have been conducted on specific implementation details (see Appendix 2 of the Explanatory Note and Basis for Conclusions).

Q2: Do you agree that the Draft ESRS XBRL Taxonomy as currently designed meets the needs of users (analysts, data providers, financial institutions, investors, regulators, etc.)? If not, what could be improved? Yes/No/Please explain your answer.

RJ ESG WG: No, **The Draft ESRS XBRL Taxonomy** meets the needs of certain categories of users. We noted, however, a few cases where user needs might be not fully met, or the focus on machine-**readable information presentation decreases the readability in the human-readable version**:

1. **The purpose and benefit for the users of information tagging is not clear** in the following cases:

- [200520] ESR2.BP-2 Disclosures in relation to specific circumstances (**Sources of estimation and outcome uncertainty**): The purpose of a table with an overview of **estimates applied across all ESR2 disclosures** is not clear, given there will be many applied in the **first years**, which in the current set-up would lead to many columns **for each of the set enumerations**. An **indication of estimates is better** suitable for **each disclosure section** to explain the reported metrics.
 - [200520] ESR2.BP-2 Disclosures in relation to specific circumstances (**Use of phase-in provisions**): **Clarification is required on the purpose and applicability** of this table. The overview **duplicates information disclosed in other sections but** is not **granular enough to be additional source of information for users**.
 - [201510] ESR2.MDR-M.1 Minimum disclosure requirement - Metrics MDR-M - list of ESR2 metrics – general:
 - Minimum disclosure requirement - Metrics - list of ESR2 metrics [table] -> It is not clear why an overview of all used metrics in one table is required, **being a repetition to other disclosures**. **Level of granularity is also not clear**, where **consolidation of** used datapoints might involve hundreds of lines.
 - Minimum disclosure requirement - Metrics - **additional or entity specific** metrics - general [abstract] -> **A request to summarise entity specific** disclosures in one view contradicts our understanding that those should be **reported in the other applicable sections**. The purpose and value-added of such summaries are not clear.
 - **[201110] ESR2 Policies and (or) actions not adopted** – general and [201420] ESR2.MDR-T.2 Minimum Disclosure Requirement - Targets MDR-T - targets not adopted - general: The taxonomy requests to present a list of **policies, actions and targets not adopted, per each ESR2**. **The purpose of** such an overview **in addition to what is disclosed in the topical sections** is not clear and appears to be more aimed at auditors or supervising **authorities, rather than being useful for** general users.
 - **Adding excessive and duplicate information complicates** the human readability of **the information**. **Users of information are usually interested in the companies'** strategies and disclosures. **Application of estimates**, for example, is mainly used by **users to assess to what extent they can rely on disclosed information** and hence **better belongs to the respective topical sections**, but not as a value-adding separate disclosure.
 - We believe that EFRAG's consultations so far have been somewhat weighted towards the needs of end users, particularly data providers and ESG ratings agencies. Reference is made to the anonymised views of these stakeholders provided in Appendix 2 of the Explanatory Note and Basis of Conclusions. However, we believe it is important to see if the weight of the preferences of both preparers and users is reasonably allocated. It appears that the perspectives of and impact on preparers have not been taken fully into consideration. We also believe that data providers and ratings agencies may prefer the chosen approach since it reduces their cost by essentially transferring the burden of data classification to preparers.
2. Charts **and visual presentations** are widely used in the disclosure **of information and** are preferred in human readable version, however, are not considered in the XBRL Taxonomy. **To be machine readable, information usually presented as charts and graphs will need to be converted in tabular format or presented twice to be useful for both human and machine reading**, which will make the reports heavier. An example could be [200610] ESR2.GOV-1

Role of administrative, management and supervisory bodies – where usually organisation charts are used for such disclosures. A similar example is double materiality – usually presented as a chart.

In our view, use of graphics/visuals in human version should not be discouraged due to the digital tagging, and taxonomy should clearly explain how to address such items in the machine-readable version.

3. The Draft ESRS Set 1 XBRL Taxonomy has implemented a hierarchy of XBRL elements, grouping and structuring the disclosure requirements and datapoints into a tree, as described in section 6.5. of the Explanatory Note and Basis for Conclusions. This hierarchy is not only helpful in terms of navigation, but it also provides useful relationships between different levels of narrative XBRL elements (text blocks). At the same time, the introduction of overlapping duplicated XBRL elements was avoided, and XBRL elements have been reused wherever possible as described in section A1.3. of the Explanatory Note.

Q3: Do you agree with the hierarchy provided in the presentation linkbase of the Draft ESRS XBRL taxonomy, including the Level 1, 2 and 3 of narrative text block tags (as explained in Section 6.5. of the Explanatory Note and Basis for Conclusions)? And if not, what could be improved? Yes/No/Please explain your answer.

RJ ESG WG: No. In general, we see the logic of tagging per the level 1-2-3 hierarchy. However, we **foresee challenges in practical implementation, as the granularity is much higher than for the financial information whereas the maturity of sustainability information is significantly lower.**

We see that overlapping duplicated XBRL elements was avoided, however, some data are requested to be reported and tagged twice – individually **in each ESRS section** as minimum disclosure requirements and in summary tables under ESRS 2. Please see examples in the answer to Q2. We do not see the purpose and value-added in **creating summary tables for e.g. used estimates, all metrics, all policies adopted and not adopted. Users of information seek data about the undertakings' performance per each sustainability area. Use of estimates, for example,** allows users to **conclude to what extent they can rely on provided information, but is not useful as a stand-alone cross-cutting** summary disclosure.

The main concern many companies may have with the XBRL system proposed by EFRAG is that it would significantly constrain the company's **ability to present the required information in a narrative that human readers will be able to follow** and conclude upon. That should be the basis **and starting point for the tagging. It now seems to be the other way round, tagging leads the narrative. With the anticipated levels of information,** it will become a challenge to correctly tag the **relevant levels of information through the datapoints in the sustainability statement. This should also be seen with the upcoming mandatory reporting requirements for CSRD and ESRS, which in itself is already a major challenge to ensure the reporting is fit-for-purpose, accurate and assured** where required.

Q4: Do you agree with the way EFRAG has reused XBRL elements in the Draft ESRS XBRL Taxonomy to avoid double-tagging, as described in Section 6.6. of the Explanatory Note and Basis for Conclusions, and as implemented for ESRS MDR elements? Yes/No/Please explain your answer.

RJ ESG WG: No. See the response to Q3 above.

4. The ESRS XBRL taxonomy contains semi-narrative XBRL elements (Boolean 'Yes/No' elements and enumeration 'dropdowns'), in most cases representing the terms 'shall/may disclose . . . whether and how . . .' Those are specifically important for the users of the ESRS disclosures since those facts are often extracted manually from narrative disclosures and converted into binary data (i.e., 0 or 1), as demonstrated by users in Appendix 2 of the Explanatory Note and Basis for Conclusions. A SR TEG meeting has been dedicated to discussing technical and conditional Booleans and resulted in the elimination of a number of those XBRL elements. 2 In this regard, EFRAG would be interested in the views of stakeholders on conditional and technical Booleans as laid out in section A1.1. of the Explanatory Note and Basis for Conclusions.

Q5a: Do you agree that the implementation of semi-narrative elements (yes/no Booleans, drop-down enumerations) enriches the narrative disclosures and is therefore particularly relevant for users? Yes/No/Please explain your answer.

Q5b: Do you agree that the technical and conditional Booleans as described in Section A1.1. of the Explanatory Note and Basis for Conclusions provide a clear benefit for users since they allow for tagging of positive and negative confirmations? Yes/No/Please explain your answer.

RJ ESG WG response: No. Many companies and auditors are uncomfortable with a Boolean data type, as it requires a binary yes/no **answer to questions which may require context or qualification**. This data type is not always appropriate **for narrative text** or data not binary by default. In some cases, Booleans have been used for data that in substance are 'extent to which'. An example is the **generic 'stakeholders have been involved in target setting' tag. A** Yes may cover anything from the **most perfunctory to the most extensive consultation. It is not easy** to see what this Boolean adds to the accompanying text block.

We recognize benefits of using Boolean data type answer **where information is a clear fact and of** binary type, since it creates simplicity in summarising and comparing data. However, due to a use **of transformation rule** there will be extra **reporting burden** for reporters and, more importantly, audit risk in applying the **Boolean data type, given manual reconciliation of human and machine-readable info** will be required from an assurance provider. As per our understanding, if a text data type is applied, a **user of information makes a conclusion** on the disclosure based on the **information included in the sustainability reporting. If Boolean is applied, an assurance provider** needs to confirm the accuracy of Boolean answer vs. the human readable disclosure. With **development of AI technologies, this transformation potentially might** be supported by **automation, however, in the first years of application we see a challenge. For the moment, extra clarifications are required on the requirements to the presentation of the information for the** human reading and for the required assurance.

5. The Draft ESRS Set 1 XBRL Taxonomy provides a number of explicit and typed dimensions for disaggregation of digital disclosures. Those dimensions can be used to tag Impacts, Risks, and Opportunities (IROs) as well as Policies, Actions, and Targets (PAT) as per ESRS 2 (see section 6.6. of the Explanatory Note). Additionally, typed dimensions enable the tagging of companies' additions to ESRS datapoints and even entity-specific disclosures or disclosures stemming from other legislation and generally accepted sustainability statements (see

section 6.9. of the Explanatory Note and Basis for Conclusions). While the use of those XBRL dimensions is common practice and straightforward, the specific implementation of optional disaggregation requires a very specific technical solution, as described in section A1.6. of the Explanatory Note and Basis for Conclusions. Due to the very technical nature of questions 6a and 6b, they should be answered by respondents familiar with the XBRL specifications only.

Q6a (XBRL experts only): Do you agree with the dimensional modelling of the ESRS XBRL taxonomy and, in particular, with the implementation of typed dimensions for IROs, policies, actions, targets and metrics as described in Section A1.6. of the Explanatory Note and Basis for Conclusions? Yes/No/Please explain your answer.

RJ ESG WG: not applicable / for XBRL experts only

Q6b (XBRL experts only): Do you agree with the introduction of open hypercubes for optional disaggregation as described in Section A1.6. of the Explanatory Note and Basis for Conclusions? If not, how should it be improved? Yes/No/Please explain your answer.

RJ ESG WG: not applicable / for XBRL experts only

Q7: Do you agree with the approach that minimises the need for XBRL taxonomy extensions, therefore supporting comparability across preparers and relevance by providing mechanisms for tagging the following disclosures, as described in Section 6.9 of the Explanatory Note and Basis for Conclusions? 1 IROs, Policies, Actions and Resources, Targets and Metrics. 2 Additions to ESRS datapoints. 3 Disclosures stemming from other legislations or generally accepted sustainability standards and frameworks. 4 Other entity-specific disclosures, including metrics. If not, how should it be improved? Yes/No/Please explain your answer.

RJ ESG WG: Yes. We agree overall that the approach minimises the need for XBRL Taxonomy extensions **and better comparability. However, as mentioned** in our response to Q1, we foresee rather significant workload for preparers.

6. The Draft ESRS Set 1 XBRL Taxonomy comes with three validation rules (implemented as Formula 1.0 assertions) that can be evaluated in ESRS XBRL reports (see section 6.8. of the Explanatory Note and Basis for Conclusions). All three validation rules signal missing facts, which are supposed to be tagged in an XBRL report but using different severity levels per the following rules: a) missing facts for EU datapoints are signalled as ERRORS, missing ESRS 2 MDR facts that are outside of the materiality assessment are signalled as WARNINGS, and for c) missing facts on metrics are signalled as INFORMATION (OK) for those that are deemed to be not material.
7. EFRAG recommends reviewing those validation rules and adding more rules in order to improve the quality of the digital disclosures as soon as the first digital XBRL reports are available.

Q8: Do you think that the validation rules implemented in the Draft ESRS XBRL Taxonomy as described in Section 6.8. of the Explanatory Note and Basis for Conclusions are appropriate? If not,

please explain why and/or which additional validation rules or consistency checks should be implemented. Yes/No/Please explain your answer.

RJ ESG WG: Yes. We consider that overall **the proposed validation** rules are appropriate, however, the current scope of applicable provisions does not allow to conclude on the value-added of this **functionality. Information required by the other legislation is** limited in many cases. For example, according to the table with XBRL Taxonomy, for ESRS E1 only one line falls under the rule EU Datapoints (ERROR Severity) - **Disclosure of energy consumption and mix [text block]**. As compared with other disclosure requirements relevant for this area, an ERROR message only for this line might be not too useful. **With the developments of respective legislation that** perhaps would change.

We also would like to stay cautious regarding embedding the **additional validation rules in the** taxonomy itself (as per par. 112) as this may reduce the flexibility to use a taxonomy and reduce data traceability. If implemented, we would recommend keeping **such validations as warnings only.**

8. Lastly, EFRAG welcomes other comments or suggestions.

Q9: Do you have any other comments or suggestions? [Comment box]

RJ ESG WG:

1. **As a result of the delay in the adoption process of the XBRL taxonomy, this will mean that the large listed entities will prepare their** FY2024 sustainability report without tagging first, and then in their second FY2025 sustainability also incorporate the detailed tagging; **effectively providing them with a phase-in** of 1 year in respect of the digital tagging. This **raises the questions, whether** it would also be beneficial for the large non-listed entities, which will need to prepare their **first sustainability reporting** for FY2025, to provide a 1-year phase in for their digital tagging, so that they would only need to include such detailed **tagging in their FY2026 sustainability reporting. Due to the enormous challenge for this** category of companies for the **first time preparing a sustainability report, we would** strongly support a **phase-in of 1 year for these entities as well.** Companies that will need to publish sustainability reports will welcome an XBRL postponement to focus their efforts, as stated before, on **the CSRD and ESRS reporting requirements. In addition, the additional XBRL reporting burden does contradict the European Commission statement to reduce the reporting burden to on EU companies by 25%.**
2. We note that paragraph 121 refers to IFRS; although for the listed companies this **would normally be the reporting standards used, but for the large non-listed entities,** local GAAP will to a large extent be applied. The document does not address **whether/how the interaction works when local GAAP is being applied.**

If you feel that any of our concerns cannot be addressed by EFRAG but are within the authority of ESMA or the EC, we would appreciate if you shared **those with the respective organisations.**