XBRL US Response to EFRAG Consultation

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Q1: Do you agree that the digital Draft ESRS Set 1 XBRL Taxonomy adequately represents the ESRS disclosure requirements?

Not answered

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?

No. While we agree that sustainability data prepared in structured, machine-readable XBRL format will facilitate accessibility, timeliness, and usability of reported data for all users, without being able to access sample reports developed using the ESRS Taxonomy, it is impossible to speak knowledgeably and with certainty about the usefulness and functionality of the data for users. Sample instance documents should be provided with the taxonomy.

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 textblock tags (as explained in Section 6.5. of the Explanatory Note and Basis for Conclusions)? And if not, what could be improved?

Yes. The hierarchy in the taxonomy presentation appears to accurately mirror levels 1, 2, and 3 as outlined in the draft European Sustainability Reporting Standards, however it has not yet been determined what companies will be required to report. The European Securities Market Authority (ESMA) has not yet published rules regarding how the data should be reported, and even after the ESMA rules are published, individual countries will have the ability to make changes to the rules within their own jurisdiction. Given the uncertainty around what will be required to be reported, the taxonomy hierarchy may not completely reflect final requirements which could lead to complexity in the tagging process for companies. Once the final rules are available, it may be advisable to revisit the taxonomy hierarchy to ensure that it accurately reflects how reporting entities will go about concept selection and tagging. The taxonomy hierarchy and structure is very important to facilitate ease of data preparation.

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. We support the reuse of concepts and the use of dimensions within the taxonomy which will facilitate data access and analysis.

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. We agree that boolean and drop-down enumeration elements are useful for data access. That said, we would like to point out that labels assigned to some of the boolean elements could benefit from additional clarification. For example, the concept represented by the standard label, "*Extent to which assets and business activities may be exposed and are sensitive to identified climate-related hazards has been assessed*" could be misinterpreted. If the boolean concept is set to TRUE, does that mean that an assessment has been performed to determine if assets and business activities have been exposed ***and*** that it has also been determined that these same assets and business activities are sensitive to identified climate-related hazards?

It is not entirely clear what it means to report this fact as TRUE or FALSE. The statement has two separate clauses "assets and business activities may be exposed" and "are sensitive to identified climate-related hazards". Given the word "and", one could imply that both clauses must be true in order for the boolean concept to be set to TRUE but again, it is not clear. In addition, the word "extent" is also problematic as it implies that a fact reported for this concept could have a percent data type.

An example of a more concrete definition would be the concept with a standard label of "*No Trading Symbol Flag*" with a corresponding documentation label of "*Boolean flag that is true only for a security having no trading symbol.*", or "*Entity Interactive Data Current*" with a documentation label of "*Boolean flag that is true when the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files)*." Both of these concepts are found in the SEC Document Entity Information Taxonomy.

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.

Q6a (XBRL experts only): Do you agree with the dimensional modeling 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. We agree with the approach to use dimensional modeling in the taxonomy, however the development team may wish to consider the use of explicit dimensions as well as typed dimensions.

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?

No.

Hypercubes can be open or closed. We support using only closed hypercubes. As noted in the XBRL International "Dimensions technical FAQ": *Facts reported against closed hypercubes may only use the dimensions linked to that hypercube, whereas facts reported against open hypercubes may include additional dimensions.*
It is recommended that positive (all) hypercubes should always be closed, and that negative (notAll) hypercubes are always open. Doing otherwise can lead to unexpectedly lax validation of dimensional facts, with a corresponding risk to data quality."
In Section A1.6 of the Draft ESRS Set1 XBRL Taxonomy Explanatory Note and Basis for Conclusions, paragraph 164 notes three options to allow for disaggregation. We support option (c) which allows preparers to create new hypercubes or extend existing ones as part of an XBRL extension taxonomy.

Extensions are widely used and accepted. Although the use of extensions can limit comparability of reported data, it is also a useful tool to assist regulators in understanding what additional facts reporting entities may wish to report and can serve as an important feedback loop for further enhancements to the taxonomy over time.

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 legalisations or generally accepted sustainability standards and frameworks. 4 Other entity-specific disclosures, including metrics. If not, how should it be improved?
Yes. We agree that the use of extensions should be limited to enhance comparability of data, but not to the extent of eliminating their use altogether. As noted in the response to Question 6b, extensions can provide important feedback to regulators, particularly in a reporting domain that is as new as sustainability reporting.

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.
No.
There are many more validation rules that should be included in the taxonomy to assist reporting entities prepare good quality data. The experience of public company reporting to the U.S. Securities and Exchange Commission is an important example where extensive validation rules have helped to improve data quality. The implementation, which began in 2009, was initially supported by validation rules developed by the SEC to check for acceptance to their data collection system (Electronic Data Gathering and Retrieval System, or EDGAR). As data was collected, it became clear that much greater validation, based on accounting and business rules, was needed. In 2015, XBRL US initiated an industry-driven program to develop open, freely

available validation rules that can be run automatically in vendor software to check for errors. Widespread use of these rules has significantly increased the integrity of data reported which can be seen by reviewing the decline in error count by category (https://xbrl.us/data-quality/filing-results/dqc-results/)

That said, we do agree that the first validation rule named, which checks that certain mandatory facts are tagged, is an appropriate rule and should be included. The second validation rule checks that certain disclosures are made in those areas where the company's materiality assessment indicates that these disclosures are mandatory. This seems like an acceptable check although it may result in a substantial number of warnings being triggered.

The third validation rule is triggered when numerical facts are not reported in the instance document, where a concept exists in the taxonomy. This rule triggers an Information flag, but it seems excessive as it appears it will be flagged for every taxonomy element that is numerical in data type.