



BASIS FOR CONCLUSIONS

**ESRS FOR LISTED SMALL- AND  
MEDIUM-SIZED ENTERPRISES  
(ESRS LSME)**

JANUARY 2024

OPEN FOR COMMENTS UNTIL 21 MAY 2024

**DISCLAIMER**

This Basis for Conclusions accompanies but is not part of the Exposure Draft ESRS for listed SMEs. It summarises the considerations of the EFRAG SRB and the EFRAG SR TEG in the standard-setting process leading to the Exposure Draft. It also includes references to ESRS for large undertakings (as adopted by EC in July 2023) and other regulations used in developing the proposed contents of the Exposure Draft.

It does not reflect the position of the European Union or the European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA).

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#### **ADDENDUM**

- PART 1 - 'two columns comparison ESRS LSME ED -Set 1'
- PART 2 – Changes made by EFRAG SRB to ESRS LSME ED approved by EFRAG SR TEG

## Introduction

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- BC1. The objective of this document is to describe the process followed in defining the [draft] Exposure Draft for European Sustainability Reporting Standards for listed SMEs ('ESRS LSME ED' or 'the ED'), including the methodological approach taken, the main content of the ED and the key aspects discussed by the EFRAG Sustainability Reporting Board (the EFRAG SRB) and the EFRAG Sustainability Reporting Technical Expert Group (the EFRAG SR TEG).
- BC2. The ESRS LSME ED has been developed to comply with the provisions of Directive 2013/34/EU of the European Parliament and of the Council as amended by Directive (EU) 2022/24642 (the 'CSRD') for the ESRS LSME ED.
- BC3. The ESRS LSME ED's contents have been defined starting with the ESRS developed for large undertakings and approved by the EC in July 2023<sup>1</sup> (hereinafter also 'Set 1'). In particular, the content for the Set 1 standards has been amended to simplify the requirements wherever possible, striking a balance between meeting the users' needs and delivering a draft standard that is *proportionate and relevant to the disc of small- and medium-sized undertakings* (art. 29c CSRD).
- BC4. The main simplifications made compared to Set 1 are summarised in each section of this document (for more details, see [Part 1 'two columns comparison ESRS LSME ED -Set 1' - Addendum](#)).
- BC5. Because the ESRS LSME ED has been developed on the basis of Set 1, this document focuses on the differences between Set 1 and the ED, particularly by explaining the arguments considered in the simplification of Set 1. With regard to the content of the ESRS LSME ED that is left unchanged from Set 1, the arguments supporting the Basis for Conclusions of the ESRS drafts from November 2022 are applicable.<sup>2</sup>
- BC6. The ESRS LSME ED applies to the preparation of sustainability statements on an individual basis when the undertaking opts for the derogation provided by Art. 19a(6) CSRD. If the reporting undertaking is a parent company of a large group (based on the definition set out in Article 7 of the Accounting Directive N. 2013/34), and it is required to prepare a consolidated financial statement, the sustainability statement for the group shall be drawn up using ESRS for large undertakings.

### EFRAG's due process to date and approval

- BC7. The ED was discussed for the first time by EFRAG SR TEG on 5 December 2022 in relation to the general approach to the development of the Standard, the proportionality principle and materiality.
- BC8. The EFRAG SRB held a meeting to discuss the approach to be followed in developing the Standards for SMEs on 27 January 2023 (closed session). In particular, in the meeting the results of an internal questionnaire was discussed on the need to develop:
- (a) one standard for all SMEs or
  - (b) two separate standards,
    - i. the ESRS LSME, which is legally binding according to CSRD art. 19(a) 6; and
    - ii. the VSME (voluntary reporting for non-listed SMEs).

The SRB consensually agreed to instruct the SR TEG

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<sup>1</sup> [Commission Delegated Regulation \(EU\) 2023/2772 of 31 July 2023](#) supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards

<sup>2</sup> Available at <https://efrag.org/lab6#subtitle4>. EFRAG has issued its Basis for Conclusions on the draft ESRS released to the European Commission (EC) in November 2022. The EC has amended the content of the draft ESRS released by EFRAG to further streamline the standards. An illustration of the changes made by the EC can be found from page 6 of the Delegated Act issued on 31 July 2023.

## ESRS LSME ED Basis for conclusions

- i. to start with the ESRS LSME ED;
- iii. to not overdo the ESRS LSME ED (proportionality) – but to remain within the remit of the CSRD constraints;
- iv. once the ED basis is stabilised, to consider VSME from the perspective of consistency and additional proportionality; and
- v. to potentially consider merging the ESRS LSME ED and VSME if relevant.

The overall purpose was to make available a standard for the two types of entities (listed and non-listed SMEs) within the same timeframe.

With reference to the point iv. the technical activities leading to the drafting of the two standards after this meeting showed that the differences in purpose and perimeter of application of the two respective standards require different approaches to the requirements. Merging of the two standards would have failed to meet the needs of the respective constituencies.

Furthermore, during the meeting it was agreed that the SFDR, Pillar 3 and Benchmark data are needed in the ED as explicitly referenced in the CSRD despite the focus on proportionality.

BC9. The ESRS LSME ED was also discussed at the following meetings:

- (a) EFRAG SR TEG meetings: 17 and 25 January 2023, 2 and 21 February 2023, 13 March 2023, 3 and 24 April 2023, 12 May 2023, 19 and 21 June 2023, 12 and 18 September 2023, and 17 October 2023 (additional details are provided in appendixes A and B);
- (b) EFRAG SRB meetings: 14 December 2022, 27 January 2023, 7 Feb. 2023, 8 and 22 March 2023, 28 June 2023, 13 and 22 September 2023, 24 October 2023, and 29 November 2023 (additional details are provided in appendixes A and B);
- (c) internal meetings with EFRAG Expert Working Group (EWG)<sup>3</sup> on SMEs: between December 2022 and November 2023, as illustrated in *Appendix C*; and
- (d) workshops with the EFRAG LSME Community:<sup>4</sup> between January 2023 and November 2023 (additional details are provided in *Appendix C*).

Another important element of the drafting process was the internal consultation run during summer 2023, which was designed to gather detailed feedback on version 3 of the ESRS LSME ED via discussions of the results of the EFRAG SR TEG meeting held on 12 September 2023 and the EFRAG SRB meeting held on 13 September 2023.

BC10. The outcome of the meetings and input listed above as well as how the various technical suggestions were incorporated in the drafting process is outlined in the chapters of this Basis for Conclusions.

BC11. The EFRAG SR TEG approved the ESRS LSME ED to be issued for consultation (recommendation to the EFRAG SRB) on 17 October 2023. The ED was approved by a large majority, with 17<sup>5</sup> votes in favour. Two EFRAG SR TEG members dissented, namely:

- (a) Eric Duvaud (French liaison member), who dissented as he considered that the ESRS LSME ED

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<sup>3</sup> The EFRAG EWG on SMEs is composed of nine technically experienced members on SMEs. EFRAG Secretariat consulted on progressive versions of the ED to get their views on technical matters on each LSME section.

<sup>4</sup> The LSME Community is composed of various stakeholders including preparers, users and investors from several EU countries. As part of its due process, EFRAG Secretariat has consulted this community to gather feedback from these stakeholders on progressive versions of the ED (more details on the composition are provided in appendix D).

<sup>5</sup> Klaus Hufschlag, Signe Andreasen Lysgaard, Philippe Diaz, Julie Marie, Luca Bonaccorsi, Piermario Barzaghi, Belen Varela Nieto, Julian Muller, Katerina Katsouli, Carlota de Paulo Coelho, Piotr Biernaki, Thomas Smotz, Sigurt Vitol, Giulia Genuardi, Maria Mora, Chiara Del Prete.

## ESRS LSME ED Basis for conclusions

- i. still had too many datapoints that he considered unnecessary (e.g., carbon credits, due diligence, connectivity, references to JVs and associates, etc.) and
  - ii. failed to provide to banks, insurers and investors a sector-specific perspective; and
- (b) Luc Hendrickx, who dissented due to:
- i. the methodological approach as in his opinion it failed to follow the recommendations of the EFRAG ESRS Project Task Force<sup>6</sup> to build a standard truly designed for SMEs instead of one resulting from a 'reduced' ESRS Set 1 standard;
  - ii. though acknowledging that the standard had been designed to meet the users' needs of investors (as the entities in scope are listed), because the purpose of a standard like LSME cannot be considered as the value chain cap; and because
  - iii. the standard is too long and its language and style too complex for SMEs.
- BC12. On 13 and 15 December 2023, the EFRAG SRB discussed a number of simplifications recommended for the draft approved by EFRA SR TEG. Several changes were agreed by the EFRAG SRB ahead of the approval. "[Addendum Part 2 Changes made by EFRAG SRB to ESRS LSME ED approved by EFRAG SR TEG](#)" offers in mark-up the changes agreed by the EFRAG SRB in the approval of the ED compared to the version approved by SR TEG on 17 October 2023. The table below offers a summary of these changes.

SRB decisions	Implemented in the ESRS LSME ED
As the standard is written with an individual perspective in mind, the fact that subsidiaries are treated as associates and joint ventures are considered for value chain reporting should be clarified, and a new AR should be added to illustrate the general principle on treatment of subsidiaries, associates and joint ventures when they are actors in the value chain.	<p><u>Section 1</u></p> <p>Chapter 4.1 <i>Reporting undertaking and value chain</i></p> <p>Par. 61 and AR 19</p>
The EFRAG SRB considered that LSME plays a legal role in defining which large corporations are entitled to requiring SMEs in the value chain (value chain cap). In this context, the EFRAG SRB agreed to include a new paragraph in the main body of the ED and an additional AR to specify that an LSME can rely on and refer to information reported by an actor of its value chain in a sustainability report prepared according to ESRS Set 1, the future EFRAG Voluntary Standard for non-listed SMEs (VSME), the GRI, the EMAS and the IFRS. This is intended to reduce the burden of data collection and verification for undertakings that prepare an ESRS sustainability statement, but it is not, however, intended to limit the auditor's integrity with regard to the auditor's review procedures. In order to preserve the appropriate quality, this option is conditional on (1) the piece of information needed that is present in the sustainability report and (2) whether the report has the same level of assurance as the ESRS sustainability statement. The reason why (1) was added is because, depending on specific sectors, the LSME could conclude that the inclusion of the impact data of a	<p><u>Section 1</u></p> <p>Chapter 4.2 <i>Estimation using sector averages and proxies</i></p> <p>Par. 65 and AR 21</p>

<sup>6</sup> This taskforce conducted preliminary work for the preparation of ESRS in 2021/2022.

SRB decisions	Implemented in the ESRS LSME ED
<p>supplier is necessary. In this case, the impact data to be included in the LSME's sustainability statement would need to refer to the impacts that are directly linked to the LSME's products and services and that are not necessarily the total amount reported in the supplier's sustainability report.</p> <p>The newly added AR paragraph serves the purpose of illustrating the efforts that can be reasonably expected from undertakings in preparing their value chain information whenever they face a large number of upstream and downstream counterparties. As an illustration of the concept of 'reasonable effort', consider a case where an undertaking that cannot collect the necessary data with reasonable effort develops proxies. At the same time, the undertaking is expected to be able to report on its own efforts and on the results of those efforts to promote a more sustainable behaviour in its counterparties in the value chain. However, the undertaking is not expected in general to report on third parties' behaviours that are beyond the area of influence of such efforts.</p>	
<p>In the context of the value chain cap, a new AR was added to specify the expected approach to value chain when performing the materiality assessment along the value chain in the face of a large number of actors. In order to avoid excessive scrutiny when this is not strictly necessary, this new AR has been added to support a balanced approach in the exercise of judgement when performing the materiality assessment, focusing instead on the problem areas with the aid of a more granular analysis.</p>	<p><u>Section 1</u>  Chapter 3.3 <i>Application requirements – Double materiality</i>  AR 9</p>
<p>The wording has been streamlined and additional simplifications have been made on the requirements in chapters 6.1 and 6.2.</p> <p>In chapter 6.3, the facilitation of 'reasonable effort' has been introduced for events taking place after the end of the reporting period. When disclosing on the effects of information obtained after the end of the reporting period but related to conditions that existed at the year end, the requirement is to produce narrative information.</p> <p>The datapoint for disclosing narrative information on the effects of events occurring after the reporting period has been eliminated.</p>	<p><u>Section 1</u>  Chapter 6.1 <i>Presenting comparative information</i>  Chapter 6.2 <i>Sources of estimation and outcome uncertainty</i>  Chapter 6.3 <i>Updating disclosures about events after the end of the reporting period</i></p>
<p>Streamlining of the text and simplification of the requirements on connectivity has been included.</p> <p>Specific consideration on connecting the individual sustainability statement with separate or consolidated financial statements has been given.</p>	<p><u>Section 1</u>  Chapter 8.2 <i>Connected information and connectivity with financial statements</i>  Par. 114</p>



ESRS LSME ED Basis for conclusions

SRB decisions	Implemented in the ESRS LSME ED
<p>Disclosure of the reasons to deviate from standard time-horizons has been included, as this information is material for users.</p>	<p><u>Section 2</u>  DR (BP-2) – <i>Disclosures in relation to specific circumstances</i>  Par. 8(b)</p>
<p>Streamlining of the requirements and reduction in the number of datapoints has been included.</p>	<p><u>Section 2</u>  Disclosure Requirement 3 (GOV-1) – <i>The role of the administrative, management and supervisory bodies</i>  Par. 20(c) and (d)  Par. 19</p>
<p>Streamlining of the text in paragraph 28(b) has been included.</p>	<p><u>Section 2</u>  Disclosure Requirement 5 (SBM-1) – <i>Strategy, business model and value chain</i>  Par. 28(b)</p>
<p>The deletion of AR 18 through AR 20 related to the ‘resilience of the undertaking’s strategy’ has been agreed due to the fact that the related DR has been deleted in the version approved by EFRAG SR TEG. This is because it is not explicitly mentioned in the CSRD (Art. 19(a) 6). A specific question in the consultation has been asked regarding the confirmation of the exclusion of resilience from the disclosures.</p>	<p><u>Section 2</u>  Disclosure Requirement 7 (SMB-3) – <i>Material impacts and risks and their interaction with strategy and business model</i></p>
<p>The EFRAG SRB discussed how to achieve the right balance between users’ needs (which result in the unavoidable granularity of the topical disclosures) and costs for SMEs under a proportionality approach. They considered that the standard should preserve an appropriate level of relevance and comparability and that there is a key role for the materiality of information to play in this context. In fact, the final granularity of the reported disclosure crucially depends on the conclusion of the undertaking’s assessment of materiality of information. This is because a datapoint in the Disclosure Requirements of topical sections is to be reported only when material and not necessary in order to meet the relevant disclosure objective. The EFRAG SRB agreed to include a specific provision within the objective paragraphs of each topical sections so as to promote a balanced approach when exercising judgement on the materiality of information, thereby achieving a balanced approach to the granularity of the reported datapoints.</p> <p>The EFRAG SRB agreed to include the following at the beginning of each topical section (sections 3 through 5):</p> <p><i>The undertaking shall apply the requirements in this Section when it concludes that the corresponding topic is material (according to chapters 3.3 Double materiality, 3.4 Impact</i></p>	<p><u>Topical sections</u></p>

ESRS LSME ED Basis for conclusions

SRB decisions	Implemented in the ESRS LSME ED
<p>materiality and 3.5 Financial materiality of Section 1). Following the undertaking's assessment of the materiality of the information according to paragraph 36 of Section 1, the sustainability statement shall include those disclosures prescribed in this Section that are assessed to be material. Individual datapoints may be omitted when the corresponding information is not material and when the undertaking concludes that such information is not needed to meet the objective of the Disclosure Requirement.</p>	
<p>'If applicable' has been added in certain paragraphs.</p>	<p><u>Section 4</u></p> <p>E1-2 – Gross Scopes 1, 2, 3 and Total GHG emissions: Paragraphs 17(b), 18(b) and 20(b)</p> <p>E1-3 – GHG removals and GHG mitigation projects financed through carbon credits: Paragraph 24</p> <p>E1-4 – Anticipated financial effects from material physical and transition risks and potential climate-related opportunities: Paragraphs 32(b), (d), and (e) and 33</p>
<p>'If applicable' has been added in some requirements, in the option to use ranges instead of single amounts for net revenues at transition risk, and in the merging of separate datapoints in a single datapoint.</p>	<p><u>Section 4</u></p> <p>E1-4 – Anticipated financial effects of material physical and transition risks and potential climate-related opportunities: Paragraph 32</p>
<p>Streamlining and simplifications of requirements on resource inflows have been included.</p>	<p><u>Section 4</u></p> <p>E5-1 – Resource inflows: Paragraphs 57 and 58</p>
<p>The EFRAG SRB added a clarification on the thresholds for reporting under the EPRTR.</p> <p>It also agreed to add a new AR introducing additional guidance aligned with the content of the proposed guidance in VSME ED.</p>	<p><u>Section 4</u></p> <p>E2-1 – Pollution of air, water and soil: AR 44 and new AR 45</p>
<p>The EFRAG SRB agreed on adding AR on managed sites based on the definitions in Set 1.</p>	<p><u>Section 4</u></p> <p>E4-1 – Impact metrics related to biodiversity and ecosystems change: AR 57</p>
<p>The EFRAG SRB introduced an option for SNCIs to deviate from the use of net revenues as a denominator in GHG and water intensity ratios and to use instead another indicator until sector requirements are in place.</p>	<p><u>Section 4</u></p> <p>E1-2 – Gross Scopes 1, 2, 3 and Total GHG emissions, and E3-1 – Water consumption: Paragraphs 23 and 48</p>

*ESRS LSME ED Basis for conclusions*

<b>SRB decisions</b>	<b>Implemented in the ESRS LSME ED</b>
The EFRAG SRB agreed to an editorial change to limit the disclosure to 'main countries' without social protection by replacing the current phrasing that reads 'major countries'.	<u>Section 5</u>  S1-5 – Social protection: Paragraph 29 and 30
The EFRAG SRB agreed to an editorial change to limit the disclosure to main countries where employees are not paid an adequate wage by replacing the current phrasing that reads 'major countries'.	<u>Section 5</u>  S1-4 – Adequate wages: Paragraphs 22 through 24
Streamlining and simplification of the provisions for incidents of discrimination and identified cases of severe human rights incidents has been made.	<u>Section 5</u>  S1-9 – Incidents and severe human rights impacts: Paragraph 47
Changes regarding different levels in which collective bargaining agreements can be discussed and reached have been made.	<u>Section 5</u>  S1-3 – Collective bargaining coverage: AR 23
The EFRAG SRB has replaced the threshold of 50 employees and more than 10% of the total employees with 10% only, dropping the 50 employees component from the threshold. The EFRAG SRB considered that the two thresholds combined would not be relevant for SMEs. This is to be applied in all the section 5.	<u>Section 5</u>  Across Section 5
Streamlining and simplifications of <i>Appendix B</i> have been implemented.	<u>Section 5</u>  Appendix B.2-B.4

Following the discussions and decisions on the topics above, the SRB approved the ED to be issued for public consultation subject to editorial changes (with 18<sup>7</sup> votes in favour and three abstentions).

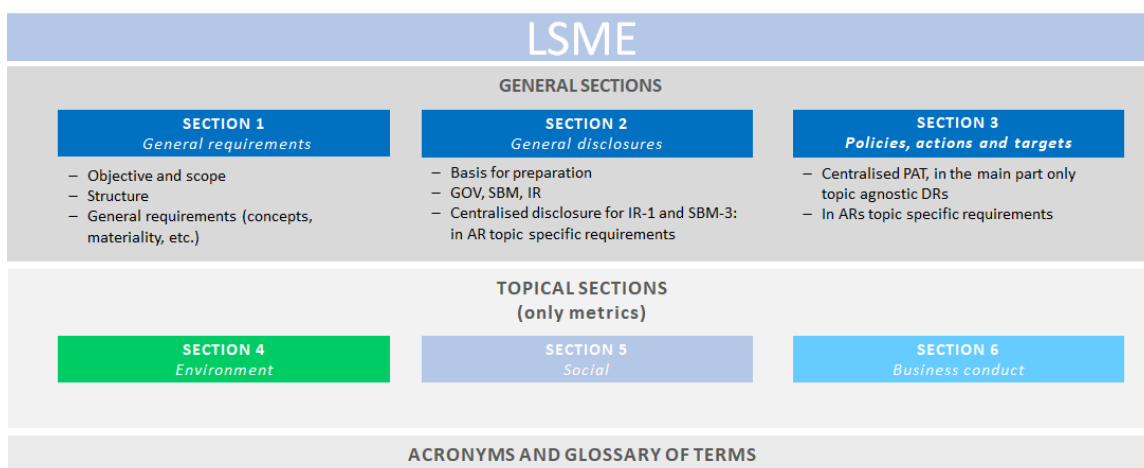
The three abstentions from David Vermijs, Filip Gregor and Isabelle Schömann were justified by the significant number of changes to the Exposure Draft as approved by EFRAG SR TEG discussed in the EFRAG SRB meetings in December, given that the SRB members did not have the possibility to see a revised version of the Exposure Draft incorporating those changes at the timing of the vote.

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<sup>7</sup> Aleksandra Palinska, Simon Braaksma, Monika Brom, Carlos Moreno, Luc Vansteenkiste, Charlotte Söderlund, Grégoire de Montchalin, Kerstin Lopatta, Kristian Koktvedgaard, Marcello Bianchi, Laurence Rivat, Patrick de Cambourg, Salvador Marin, Thierry Philipponat, Wim Bartels, Begonia Giner, Annina Tanhuanpaa, Stefan Schnell.

## Structure of the ESRS LSME ED

- BC13. The ED has a simplified structure. The content of the twelve ESRS in Set 1 has been rearranged in one standalone Standard with six sections:
- three general sections, Section 1 *General requirements*, Section 2 *General disclosures* and Section 3 *Policies, actions and targets*; and
  - three topical sections dedicated to metrics, Section 4 *Environment*, Section 5 *Social* and Section 6 *Business conduct*.



## Legal basis: Provisions for the ESRS LSME ED in the CSRD

- BC14. The CSRD introduces simplified Sustainability Reporting Standards for listed SMEs (Art. 19a(6) CSRD), small non-complex credit institutions and captive insurances and reinsurances (together and hereafter referred to as ‘the LSME’ or ‘undertaking’) as derogation to the ESRS for large undertakings.
- BC15. Recital 17 of the CSRD explains that public-interest entities should not be treated as large undertakings for the purposes of the application of the sustainability reporting requirements. Accordingly, small- and medium-sized undertakings whose securities are admitted to trading on a regulated market in the European Union and that are public-interest entities should be allowed to report in accordance with the sustainability reporting standards for small- and medium-sized undertakings.
- BC16. Recital 21 of the CSRD indicates the function of the ESRS LSME ED. The ED is expected to support the availability of sustainability information by listed SMEs and in this way avoid discrimination against such entities on the part of financial market participants. In addition, the ED is expected to ensure the availability of SFDR PAIs and Taxonomy disclosures.

BC17. Recital 53 highlights the proportionality and the function of the ESRS LSME ED in setting the legal cap of value chain. Sustainability reporting standards should take account of the difficulties that undertakings may encounter in gathering information from actors throughout their value chain, especially from suppliers that are SME undertakings, and from suppliers in emerging markets and economies. *Sustainability reporting standards should specify disclosures concerning value chains that are proportionate and relevant to the scale and complexity of the activities of the undertakings, and the capacities and characteristics of undertakings in value chains, especially those capacities and characteristics of undertakings that are not subject to the sustainability reporting requirements provided for in this amending Directive. Sustainability reporting standards should not specify disclosures that would require undertakings to obtain information from small and medium-sized undertakings in their value chain that exceeds the information to be disclosed in accordance with the sustainability reporting standards for small and medium-sized undertakings. This should be without prejudice to any Union requirements on undertakings to conduct a due diligence process.*

### Minimum content of the ESRS LSME ED defined in the CSRD

BC18. CSRD Art. 19a (6) – Derogation to Art. 19a (1) specifies that the reporting content of ESRS LSME ED shall include:

- (a) *a brief description of the undertaking's business model and strategy;*
- (b) *a description of the undertaking's policies in relation to sustainability matters;*
- (c) *the principal actual or potential adverse impacts that the undertaking has on sustainability matters and any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts;*
- (d) *the principal risks for the undertaking related to sustainability matters and how the undertaking manages those risks; and*
- (e) *key indicators necessary for the disclosures referred to in points (a) through (d).*

BC19. Article 29b(2) of the CSRD indicates that the list of sustainability matters to be covered in the ESRS LSME ED is the same as the one for large undertakings (Set 1).

BC20. Article 29b (3) of CSRD indicates that LSMEs shall specify the forward-looking, retrospective, qualitative and quantitative information.

### Scope of the ESRS LSME ED

BC21. Article 19a(6) of the CSRD establishes that the following LSME categories may use simplified reporting standards (Art. 29c):

- (a) *small- and medium-sized undertakings (SMEs),<sup>8</sup> except micro-undertakings, which are public-interest entities as defined in point (a) of point (1) of Article 2 of the Accounting Directive N. 2013/34;*

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<sup>8</sup> Small undertakings shall be undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:

- (a) balance sheet total: EUR 4 000 000 (adjusted 5 000 000);
- (b) net turnover: EUR 8 000 000 (adjusted 10 000 000); and
- (c) average number of employees during the financial year: 50.

Medium-sized undertakings shall be undertakings which are not micro-undertakings or small undertakings and which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:

- (a) balance sheet total: EUR 20 000 000 (adjusted 25 000 000);
- (b) net turnover: EUR 40 000 000; (adjusted 50 000 000); and
- (c) average number of employees during the financial year: 250.

To note that the EC is amending Directive 2013/34/EU of the European Parliament and of the Council in respect to the adjustments of the size criteria for micro-, small-, medium-sized and large undertakings or groups (underlined numbers above indicate the adjusted criteria). Please see the link [here](#).

*(b) small and non-complex institutions<sup>9</sup> defined in point 145 of Article 4(1) of Regulation (EU) No 575/2013; and*

*(c) captive insurance and reinsurance undertakings<sup>10</sup> defined in point (2) of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council.*

BC22. Based on Art. 4(5) of the Transparency Directive as amended by the CSRD – which requires all companies (EU and non-EU) that are listed in the EU-regulated markets to report their sustainability information in compliance with CSRD rules – third-country listed SMEs shall comply with the same requirements set out for EU-listed SMEs. Third-country listed SMEs that are not parents of large groups have the option to use ESRS for listed SMEs. If the third-country listed SME is a parent of a large group, it would have to report at a consolidated level under Art. 29a and use ESRS for large undertakings.

#### **Effective date and optout**

BC23. The provisions in the CSRD for small- and medium-sized undertakings, except micro-undertakings whose securities are admitted to trading on a regulated market in the European Union, should apply for financial years starting on or after 1 January 2026.

BC24. Following that date, for a transitional period of two years small- and medium-sized undertakings whose securities are admitted to trading on a regulated market in the European Union should have the possibility of opting out of the sustainability reporting requirements laid down in the CSRD, provided that they briefly state in their management report why the sustainability information has not been supplied.

#### **Proportionality**

BC25. Article 29c of the CSRD indicates that SMEs' sustainability reporting standards shall be proportionate and relevant to the scale and complexity of the activities and to the capacities and characteristics of small- and medium-sized undertakings. In terms of content, Art. 29c refers to Art 19a(6) and to the criteria established in Article 29b, paragraphs 2, 3, 4 and 5. It requires the standards to specify, to the extent possible, the structure with which that information shall be reported. The Commission shall adopt those delegated acts at the latest by 30 June 2024 (the date is expected to be postponed to 30 June 2026).

#### **Value chain cap**

BC26. Article 29b(4) of the CSRD sets the so called 'value chain cap' whereby sustainability reporting standards shall not specify disclosures that would require undertakings to obtain information from small- and medium-sized undertakings in their value chain that exceeds the information to be disclosed pursuant to the sustainability reporting standards for small- and medium-sized undertakings referred to in Article 29c (for more details, see the chapter 'Value chain implications of the ESRS LSME ED').

#### **EU Regulations to be taken into account**

BC27. Article 29b(5) of the CSRD: ESRS LSME ED shall to the greatest extent possible take account of the work of global standard-setting initiatives, the information that financial market participants need to comply with in their regulations (i.e., the SFDR), EU Taxonomy (Reg. 2020/852) and other EU Regulations included in Set 1.

#### **Individual sustainability statement perspective**

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<sup>9</sup> For an overview of the criteria, please follow this link [here](#).

<sup>10</sup> 'Captive insurance undertaking' means an insurance undertaking owned either by a financial undertaking other than an insurance or reinsurance undertaking, by a group of insurance or reinsurance undertakings within the meaning of Article 212(1)(c) or by a non-financial undertaking, the purpose of which is to provide insurance cover exclusively for the risks of the undertaking or undertakings to which it belongs or of an undertaking or undertakings of the group of which it is a member. Please see the link [here](#).

- BC28. The ESRS LSME sustainability statement is to be issued on an individual basis only as there are no provisions for the consolidated report of small- and medium-sized entities. Under Art. 19a(9) of the CSRD, listed SMEs are exempted from carrying out individual sustainability reporting if they are included in the consolidated management report of a parent company that has carried out consolidated sustainability reporting in accordance with Art. 29a (and if other specific conditions are met).
- BC29. Under Art. 29a(1) of the CSRD, where a LSME is a parent undertaking of a large group it has to report in accordance with the ESRS for large undertakings (Art. 29a(5)). Under Art. 29a(7) if a listed SME is providing consolidated sustainability reporting, it is then exempted from providing individual sustainability reporting. Under Art. 29a(8), listed SMEs are exempted from carrying out their consolidated sustainability reporting if they are included in the consolidated management report of another parent company that has provided consolidated sustainability reporting in accordance with Art. 29a (and if other specific conditions are met).

### **High-level comparison of the CSRD provisions for Set 1 and the ED**

- BC30. The table below provides an overview of correspondences and differences in reporting areas, along with their related CSRD provisions, as established between ESRS LSME ED (Art. 19a6) and ESRS for large undertakings (Art. 19a2). The correspondences are marked in bold. The differences that were extensively discussed during the standard-setting process by EFRAG SR TEG and EFRAG SRB are highlighted in orange for partial correspondence of content with reduced granularity and in red for lack of content correspondence. In particular, the third column explains the extent to which the respective content in the second column has been expanded in the proposed ED. If nothing is reported in the third column, it means that the content of the second column has been followed without derogations.

ESRS LSME ED Basis for conclusions

Reporting areas in SET 1 ESRS [art 19a (2)]	Reporting areas in ESRS LSME [art 19a (6)]	Methodological approach agreed at EFRAG SR TEG and EFRAG SRB
<p>a) a brief description of the undertaking's business model and strategy, including</p> <ul style="list-style-type: none"> <li>i. the resilience of the undertaking's business model and strategy in relation to risks related to sustainability matters;</li> <li>ii. the opportunities for the undertaking related to sustainability matters;</li> <li>iii. the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the 'Paris Agreement') and the objective of achieving climate neutrality by 2050, as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council*; and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities;</li> <li>iv. how the undertaking's business model and strategy take account of the interests of the undertaking's key stakeholders and of the impacts of the undertaking on sustainability matters; and</li> <li>v. how the undertaking's strategy has been implemented with regard to sustainability matters.</li> </ul>	<p>(a) a brief description of the undertaking's business model and strategy;</p>	<p>-Opportunities: voluntary content.</p> <p>- Interest of key stakeholders: to be covered only to the extent that they are factored in the undertaking's behaviour; i.e., provided that the undertaking engages with stakeholders, it shall disclose the understanding of the interests and views of its key stakeholders as they relate to the undertaking's strategy and business model to the extent that these were analysed during the materiality assessment process.</p> <p>- Positive impacts: voluntary.</p>
<p>b) a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets, and a statement on whether the undertaking's targets related to environmental factors are based on conclusive scientific evidence.</p>		<p>- Targets: to disclose only when the undertaking has set or adopts targets to track progress.</p> <p>- Scientific: whether the undertaking has set or adopted targets on GHG, pollution, water, biodiversity, resources and circular economy based on existing SMEs tools (i.e., science-based targets initiative for SMEs).</p>
<p>c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters and of their expertise and skills in relation to fulfilling that role or the access that those bodies have to such expertise and skills</p>		<p>- G1 (par.20) simplified compared to Set 1.</p> <p>- Art 29b (2)(c)(i): the role of the undertaking's administrative, management and supervisory bodies with regard to sustainability matters and their composition as well as their expertise and skills in relation to fulfilling that role or the access that those bodies have to such expertise and skills;</p>
<p>d) a description of the undertaking's policies in relation to sustainability matters.</p>	<p>(b) a description of the undertaking's policies in relation to sustainability matters.</p>	
<p>e) information about the existence of incentive schemes linked to sustainability matters, which are offered to members of the administrative, management and supervisory bodies.</p>		
<p>f) a description of</p>		



ESRS LSME ED Basis for conclusions

Reporting areas in SET 1 ESRS [art 19a (2)]	Reporting areas in ESRS LSME [art 19a (6)]	Methodological approach agreed at EFRAG SR TEG and EFRAG SRB
<p>i) the <b>due diligence process</b> implemented by the undertaking with regard to sustainability matters and, where applicable, in line with Union requirements on undertakings to conduct a due diligence process;</p> <p>ii) <b>the principal actual or potential adverse impacts</b> connected with the undertaking's own operations and with <b>its value chain, including its products and services, its business relationships and its supply chain, actions taken to identify and monitor those impacts</b>, and other adverse impacts which the undertaking is required to identify pursuant to other Union requirements on undertakings to conduct <b>a due diligence process</b>;</p> <p>iii) <b>any actions taken by the undertaking to prevent, mitigate, remediate</b> or bring an end to <b>actual or potential adverse impacts</b> and the result of such actions.</p>	<p>(c)<b>the principal actual or potential adverse impacts of the undertaking on sustainability matters</b></p> <p><b>and any actions taken to identify and monitor,</b></p> <p><b>or to prevent, mitigate or remediate, such actual or potential adverse impacts.</b></p>	<p>- <b>Due Diligence</b>: disclose whether it has adopted sustainability due diligence process(es) or not (SFDR datapoint). If yes: expand.</p> <p>-<b>Value chain</b>: definition of impacts and risks covers also the value chain to maintain consistency in the key concepts underpinning reporting with concepts in Set 1.</p> <p>-<b>Process to engage</b> (IR 5) has been included, to be reported only when in place.</p> <p>- <b>Process to remediate</b> (IR 6) has been included, to be reported only when in place.</p>
<p>(g) <b>a description of the principal risks to the undertaking related to sustainability matters</b>, including a description of the undertaking's principal dependencies on those matters <b>and how the undertaking manages those risks.</b></p>	<p>(d) <b>the principal risks to the undertaking related to sustainability matters and how the undertaking manages those risks.</b></p>	
<p>(h) <b>indicators</b> relevant to the disclosures referred to in points (a) to (g).</p>	<p>(e) <b>key indicators</b> necessary for the disclosures referred to in points (a) to (d).</p>	

## Methodological approach and key principles

BC31. The methodological approach adopted in the ED was established between December 2022 and February 2023 based on the results of internal questionnaires designed for, and shared with, the EFRAG SR TEG, the EFRAG LSME community and the EFRAG SME Expert Working Group (EWG) at meetings that were held as well as on guidance received by the EFRAG SRB.

BC32. The following **key principles** have been established:

- (a) **Stand-alone LSME ESRS ED:** EFRAG SR TEG and EFRAG SRB discussed the different options to be followed in drafting the ED:
  - i. Incorporation by reference from Set 1 by amending some of the principles and the content to reflect the peculiarities of listed SMEs. Under this option, the text of the LSME ESRS ED would not be accessible without consulting also the text of Set 1. This approach could also add a complication and legal uncertainty originating from the fact that, to apply the provisions in the ED, an undertaking has to refer to two different Legal Acts.
  - ii. Redrafting of the standard as a standalone document by adapting and simplifying Set 1 wherever appropriate. This option helps to avoid legal uncertainty and may also be appropriate from a user-friendly, simplified perspective.

The final decision was to define a standalone document without incorporation by reference from Set 1.

Based on this decision, the text from Set 1 ESRS for large undertakings has been integrally considered and amended where appropriate so that the ESRS LSME ED is a standalone document.

- (b) **IFRS S1 and S2 alignment:** the EFRAG SR TEG and the EFRAG SRB concluded that, in the interest of achieving simplification, it is possible to eliminate datapoints included in Set 1 for the purposes of achieving complete coverage of the content of IFRS S1 and S2 when such datapoints are not essential for the users of ESRS LSME ED. In achieving this conclusion, the SR TEG and SRB noted the explicit decision in the CSRD not to cover financial opportunities. Considering this important deviation, trying to pursue alignment on other points would be disproportionate (i.e., would impair the possibility of further simplification of the standard) and not yield concrete benefits, as missing the opportunities in the requirements would anyway impair the alignment. In conclusion, the Legislator has made a conscious decision to prioritise simplification over alignment with ISSB-IFRS for the LSME.
- (c) **Building-block approach:** between (i) ESRS Set 1, (ii) the ESRS LSME ED and (iii) the VSME (voluntary reporting for non-listed SMEs; for more details, see the chapter below on 'Building blocks').
- (d) **Qualitative characteristics of information:** these are the same as in Set 1. The EFRAG SR TEG and SRB considered that the same characteristics as in the ESRS for large undertaking would be needed in order to achieve a similar level of quality in the resulting disclosure. This was considered essential to meet the objective of this standard, i.e., providing to investors sustainability information to avoid discrimination against such entities on the part of financial market participants.
- (e) **Double materiality as the basis for sustainability disclosures:** the same approach as in Set 1, which considers the double materiality perspective in which the risks for the undertaking and the impacts of the undertaking each represent one materiality perspective, is a key principle that informs mandatory sustainability reporting, according to the CSRD.

- (f) **Approach to value chain:** the underlying principles are the same as Set 1 (allowing, in addition, undertakings not to restate comparative information, also concerning value chain, when it is not possible to do so with reasonable effort), with value chain coverage driven by the outcome of the materiality assessment. This is necessary as Art. 29c refers to art 29b (2-5), which includes value chain. This also achieves consistency with Set 1 in the use of the key definition of impacts and the key concepts underpinning the impact materiality assessment. This also allows reference to the prevailing due diligence practices to the extent that they are applied by SMEs and to the GRI reporting. Specific provisions and AR were added by the EFRAG SRB in the approval session (see above) in order to allow for reference to third party's reports and to foster a balanced reporting approach where there is a large number of actors in the value chain. This has to be also read in conjunction with the role of the LSME in setting the value chain cap.
- (g) **List of sustainability matters:** this is the same list as for large undertakings, i.e., ESRS 1 Appendix A AR16, due to the fact that Art. 29c refers to Art. 29b (2-5), which also includes the same list of sustainability topics for large undertakings.
- (h) **Sector-specific LSME layer:** on the transitional provision related to the future issuance of sector standards (ESRS 1 paragraph 130, 131), EFRAG SR TEG and SRB discussed the possible approaches to be adopted in relation to sector ESRS. There is a specific question in the public consultation on this issue. Possible approaches are:
- iii. Option 1: as a byproduct of the Set 1 sector standards there will be some guidance/sector modules with SMEs' specifications (however, this would not allow for the appreciation of the differences in approach between ESRS LSME ED and VSME); and
  - iv. Option 2: ESRS LSME ED should refer to the sector standards for large undertakings (however, this would not allow for the appreciation of difference in approach between Set 1 and ESRS LSME ED).

The ESRS LSME ED has been drafted following a sector-agnostic approach and specific sectorial perspectives. There are no provisions for sector-specific standards in the ED. The consultation covers the approach to be followed in the future for sector specificities in the ED.

- (i) **Entity-specific component:** The EFRAG SR TEG and EFRAG SRB considered as a possible simplification the elimination of the entity-specific component. This component raises challenges for SMEs in terms of exercise of judgement and associated costs. However, its presence is an essential concept in fostering the necessary qualitative characteristics of the reported information. The final decision was to adopt the same approach as in Set 1, justified by the public accountability perspective of this ED as its objective is to provide the necessary information to the users. While a simplification would have benefitted the preparers, the elimination of the entity-specific component was considered an excessive loss in relevance of the resulting information. The final decision was to keep the entity-specific component, as for large companies based on the rationale of avoiding discrimination of LSME in terms of sustainability information provided to investors compared to large companies. This was considered to be in line with the CSRD.
- (j) **Revised architecture to increase usability:** in order to streamline the structure of the standards compared to Set 1, the Minimum Disclosure Requirements (MDR) on Policies, Actions and Targets (Set 1 ESRS 2) have been replaced by a 'centralized' disclosure requirement on policies, actions and targets in relation to material sustainability matters. This centralised disclosure includes not only the equivalent of the MDR-PAT but also the specific requirement on policies, actions and targets set in ESRS Set 1 topical standards. Special attention has been paid to the incorporation of datapoints required by the SFDR, Benchmark, Pillar 3 ESG according to decision tree (below). The centralization of the disclosure has been introduced as a significant element of simplification in the methodological approach in the direction of increased usability of the standards. As a result of this

## ESRS LSME ED Basis for conclusions

restructuring, topical sections include metrics only in line with the decision tree. The narrative parts have been centralized in Section 2. More details are found in the chapter 'Decision tree' below.

- (k) **Section 2 General 'Mandatory' requirements:** the same approach followed in Set 1 ESRS LSME ED Section 2 *General requirements* is mandatory irrespective of the materiality assessment results (if not differently specified). The other disclosure requirements and information are subject to materiality assessment (for more details, see paragraph BC67).
- (l) **Reasonable effort:** the EFRAG SR TEG and SRB decided to introduce the concept of 'reasonable effort' to give more flexibility when the undertaking shall disclose comparative information, errors from prior periods, changes in preparation or presentation of sustainability information (for more details, see chapters Section 1 and Section 2 of this document).

### Steps considered for the ESRS LSME ED

BC33. The general approach in developing this ED covers the following steps, which correspond to the framework defined for sustainability reporting standard-setting in the European Union:

- (a) complying with Article 29c – *Sustainability reporting standards for small- and medium-sized undertakings* of Directive 2013/34/EU as inserted by Article 1 of Directive 2022/2464/EU (the 'CSRD'), which establishes that sustainability reporting standards shall be *proportionate* and *relevant* to the capacities and the characteristics of small- and medium-sized undertakings and to the *scale* and *complexity* of their activities. Those sustainability reporting standards shall specify for the small- and medium-sized undertakings referred to in point (1)(a) of Article 2 of Directive 2013/34/EU the information that is to be reported in accordance with Article 19a(6). Sustainability reporting standards for small- and medium-sized undertakings shall take into account the criteria set out in Article 29b(2) to (5). They shall also, to the extent possible, specify the structure to be used to present that information;
- (b) complying with the requirements of the CSRD; the CSRD defines the legislative level prescriptions (level 1) which the ESRS (level 2) must contribute to implement; the CSRD in particular provides the list of sustainability topics to be covered in the ESRS as well as the double materiality approach to be retained;
- (c) complying with Article 19a(6) of Directive 2013/34/EU, as amended by the CSRD. The CSRD introduces simplified Sustainability Reporting Standards for listed SMEs, small non-complex credit institutions, captive insurances and reinsurances undertakings (together the 'LSMEs') as derogation to the ESRS for large undertakings. In particular, the aforementioned Article 19a(6) allows a LSME, by way of derogation from paragraphs 2 to 4 of the same Article, and without prejudice to paragraphs 9 and 10, to limit its sustainability reporting to the following information:
  - i. a brief description of the undertaking's business model and strategy;
  - ii. a description of the undertaking's policies in relation to sustainability matters;
  - iii. the principal actual or potential adverse impacts of the undertaking on sustainability matters and any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts;
  - iv. the principal risks to the undertaking related to sustainability matters and how the undertaking manages those risks; and
  - v. key indicators necessary for the disclosures referred to in points i to iv;
- (d) the criteria, indicators and methodologies set out in the delegated acts adopted pursuant to Regulation (EU) 2020/852, including the technical screening criteria

established pursuant to Article 10(3), Article 11(3), Article 12(2), Article 13(2), Article 14(2) and Article 15(2) of that Regulation, and the reporting requirements set out in the delegated act adopted pursuant to Article 8 of that Regulation;

- (e) the disclosure requirements applicable to benchmark administrators in the benchmark statement and in the benchmark methodology, and the minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks in accordance with Commission Delegated Regulations (EU) 2020/1816, (EU) 2020/1817 and (EU) 2020/1818; and
- (f) the disclosures specified in the implementing acts adopted pursuant to Article 434a of Regulation (EU) No 575/2013; namely:
  - i. Commission Recommendation 2013/179/EU;
  - ii. Directive 2003/87/EC of the European Parliament and of the Council;
  - iii. Regulation (EU) 2021/1119;
  - iv. Regulation (EC) No 1221/2009 of the European Parliament and of the Council; and
  - v. Directive (EU) 2019/1937 of the European Parliament and of the Council.

## **Decision tree**

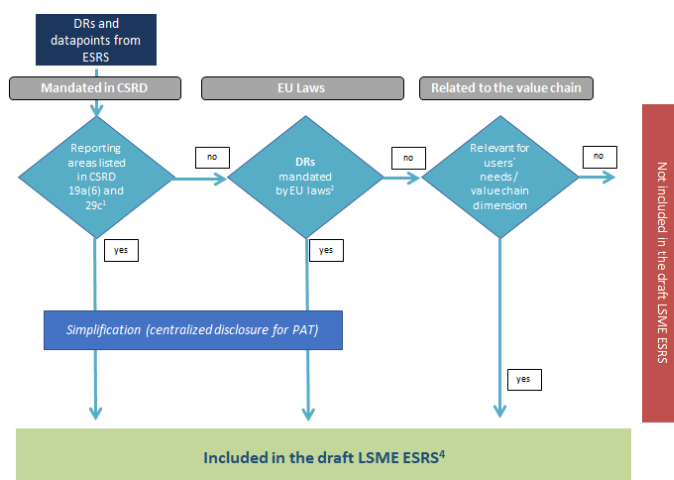
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BC34. To follow a structured approach to simplify Set 1 ESRS in line with CSRD, the EFRAG SR TEG and SRB used a decision tree. As previously indicated, the ESRS LSME ED was derived from Set 1. It was deemed necessary to develop an operational tool to be used to make decisions on the disclosure requirements included in Set 1 to be kept in the ESRS LSME ED (e.g., because of being required by a specific EU law) and, on those susceptible to amendments or simplifications, to be agreed following the process of consultation and discussion within the EFRAG SME Expert Working Group and EFRAG LSME Community. In particular, after several discussions at EFRAG SR TEG and EFRAG SRB, it was agreed to include the following parameters as evaluation elements in the Decision tree:

- (a) reporting areas listed in CSRD Art. 19a(6) and 29c, being these ones the specific CSRD articles addressing LSMEs;
- (b) DRs mandated by EU laws: the SFDR, Benchmark, Pillar 3 ESG and EU Taxonomy datapoints because of their regulatory requirements applicable to LSMEs; and
- (c) disclosures corresponding to datapoints in Set 1 that require coverage of value chain dimension for the implementation of the value chain cap in ESRS LSME ED. In this step, the priority has been to assess whether the datapoint is needed in order to meet a specific needs of users of the ESRS LSME ED.

BC35. The graphic representation of the ESRS LSME ED Decision tree is as follows:

## ESRS LSME ED Basis for conclusions



Note 1: Art. 29c refers to the criteria set out in Art. 29b point 2 to 5

Note 2: EU laws limited to SFDR, Pillar 3, benchmark regulation, climate law and Taxonomy Regulation art. 8

Note 3: ESRS Set 1 has been deeply scrutinised during the drafting of LSME, to achieve the maximum level of simplification, while providing a reporting that is able to meet the needs of LSME investors. As a second step, the resulting potential losses of information in the value chain dimension of Set 1 preparers have been considered

Note 4: VSME ED has considered also EFRAG PTF cluster 8 proposal as a possible minimum content

- BC36. In developing the decision tree and the standard itself, the EFRAG SRB and SR TEG took into consideration as a minimum the content of a draft working paper developed by a group of experts in the context of the EFRAG Project Task Force (cluster 8) regarding the proposal EU Voluntary Sustainability Reporting Standard for non-listed SMEs that are outside the scope of CSRD. The document of Cluster 8 was not finally approved by the EFRAG Project Task Force, as priority was given to the approval of the draft Exposure Draft of Set 1. General and disclosure principles indicated in the working paper for Cluster 8 were considered as the baseline for identifying the minimum elements of disclosure requirements to be included in the ESRS LSME ED.

### Value chain implications of the ESRS LSME ED – Value chain cap

- BC37. ESRS for large undertakings (ESRS Set 1 issued as delegated act in July 2023) shall not specify disclosures that would require reporting undertakings to obtain information from small- and medium-sized undertakings (SMEs) in their value chain that exceeds the information to be disclosed pursuant to the ESRS LSME ED.
- BC38. Within the ESRS LSME ED, this concept is referred to as the 'value chain cap', meaning that the disclosures in the ED determine what is the maximum detail of information that large undertakings can collect from SMEs in their value chain in order to prepare their ESRS sustainability statement.
- BC39. While the vast majority of the SMEs in the value chain of the undertakings in the scope of ESRS Set 1 are not in the scope of LSME, from a legal perspective the standard-setting process cannot deviate from the limitation introduced by the legislators in the CSRD (i.e., the ESRS LSME ED, and not the voluntary SME standard VSME, sets the legal cap).
- BC40. As explained in the previous paragraphs, the ESRS LSME ED has been developed pursuing a systematic simplification of the content of ESRS Set 1 while achieving an acceptable trade-off between proportionality and investors' needs.<sup>11</sup> This reflects the fact that the CSRD indicates a subset of the reporting objectives of the ESRS Set 1 as minimum content for this standard.

<sup>11</sup> Recital 21 of the CSRD: LSME is expected to support the availability of sustainability information by listed SMEs and in this way avoid discrimination against such entities on the part of financial market participants. In addition, the LSME is expected to ensure the availability of SFDR PAI and Taxonomy disclosures.

## ESRS LSME ED Basis for conclusions

In this context, the content of the ESRS Set 1 has been deeply scrutinised during the drafting of the ESRS LSME ED to achieve the maximum level of simplification while providing a reporting that is able to meet the needs of LSME investors. In a second step, the resulting potential losses of information in the value chain dimension of Set 1 preparers have been considered.

- BC41. The EFRAG SRB introduced in the meeting on 15 December additional provisions and Application Requirements to the draft ED approved by EFRAG SR TEG. They are described above (see par. BC 12) and have been developed considering the value chain cap role of LSME in order to explicitly acknowledge the possibility of relying on and referring to the sustainability report issued by an actor in the value chain under certain conditions. They also support a more balanced exercise of judgement in reporting on value chain.
- BC42. No datapoints in the ESRS LSME ED have been added solely with the purpose of preserving the value chain information of Set 1 reporters, as all the datapoints covering the value chain are needed to meet the investors' needs (as illustrated in the table below).
- BC43. During the elaboration of the ESRS LSME ED, extensive discussions have taken place regarding the determination of the value chain cap and the need for proportionality under an appropriate compromise between the expectations expressed at once by SME preparers and by users of SME information (large undertakings, financial institutions, and other SMEs). Part of the discussions focused on the so-called 'trickle down' effect, which crystallises a concern related to Set 1's reporting entities requesting excessive information from SMEs in their value chain.
- BC44. The conclusion reached in considering the content of LSME ESRS ED and its role in setting the value chain cap, is that some requests to SMEs from large undertakings may derive from specific arrangements between the SME and its corporate clients, due to business reasons. Therefore, EFRAG notes that the trickle-down effect due solely to ESRS reporting obligations of large undertakings (i.e. in isolation from business reasons) has been minimized in LSME ED, while allowing to maintain an appropriate coverage of the value chain information in the ESRS reporting obligations for large corporates. EFRAG also considered that the administrative burden required from SMEs in general to prepare such datapoints does not outweigh the informative and management benefits for them and for business partners and is commensurate with their resources.
- BC45. The discussions covered also the interaction between LSME and VSME in reducing the trickled down effects. EFRAG notes that non-listed SMEs receive data requests from large undertakings, including due to reporting obligations in the CSRD. While ESRS cannot result in large undertakings having to request disclosures that are not included in ESRS LSME ED, the VSME ED is intended to play a key role in supporting SMEs, when they prepare the information needed by large undertakings for ESRS reporting, as well as for other obligations including for business purposes. Therefore, VSME ED includes simplified disclosures that generally correspond to the reasonable expectations of ESRS Set 1 preparers (i.e. large undertakings that prepare their sustainability statement under ESRS).
- BC46. In conclusion, non-listed SMEs that apply VSME ED will in general be able to meet the data requests defined for value chain in LSME ED, except for very specific cases. These cases correspond to disclosures which are included in LSME ED (therefore SMEs may receive data requests from large undertakings relating to these disclosures, either due to their ESRS reporting obligations or for other obligations and business purposes), but are not included in the VSME ED, due to their excessive complexity for non-listed SMEs in general. They are principally of a sectorial nature (GHG Removals, substances of concern/high concern, resource inflows), mainly needed for management or specific arrangement purposes.
- BC47. This assessment is further illustrated in the table below, from the perspective of LSME ED (for further details on the perspective of VSME ED, please refer to the Basis for Conclusions of VSME ED). It provides an overview of the analysis of datapoints in ESRS Set 1 that have a value chain dimension (see draft EFRAG IG -2 – Value Chain Implementation Guidance) with respect to the 'trickle down' effect, under two complementary perspectives:

*ESRS LSME ED Basis for conclusions*

- (a) Perspective 1, focusing on the potential burden for SME suppliers that is due to data requests for ESRS reporting from Set 1 preparers. This perspective looks at what are the corresponding datapoints in the ESRS LSME ED (which establish the value chain cap) and how proportionate they are. This perspective covers the trickle-down effect recognised and rationalised by the standards and takes account of the Set 1 provisions and guidance regarding the preparation of information related to value chain (particularly, in relation to the collection of data and the use of secondary data such as proxies, statistics and estimates); and
- (b) Perspective 2, focusing on the correspondence between value chain datapoints in Set 1 and in the ESRS LSME ED. This perspective looks at whether and to what extent there could be potential (additional) trickle-down effects on SMEs that would derive from data not covered by the disclosure requirements already introduced in the ED.

BC48. The table below also illustrates the specific users' need that justify the respective datapoints in the ESRS LSME ED.

BC49. As a reminder, the guiding principle in developing LSME ED has been to simplify as much as possible the content, while maintaining the datapoints that are necessary to meet the users' needs. It must also be borne in mind that this standard is drafted under a sector-agnostic. Specific sectorial perspectives, as well as supply chain management policies or labels or data platforms developed by certain groups of undertakings (referred to below as « specific arrangements ») may result in additional data requests, which go beyond the scope of a VSME sector agnostic standard. These are due primarily to managerial needs and do not derive from ESRS Set 1 reporting obligations, in isolation from other considerations such as business or sustainability due diligence processes.

Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME
<p>1.</p> <p><b>Strategy, business model and value chain (SBM-1)</b></p> <p><b>Material impacts and risks and their interaction with strategy and business model (SBM-3)</b></p> <p><b>Processes to identify and assess material impacts and risks (IRO-1)</b></p>	<p><b>Conclusion: no undue effect expected from ESRS reporting<sup>12</sup></b></p> <ul style="list-style-type: none"> <li>• Perspective 1: since Set 1 preparers will generally use sectoral data instead of collecting direct data</li> <li>• Perspective 2: since covered by LSME disclosures</li> </ul> <p><b>Disclosures in LSME: SBM-1, SBM-3 and IR-1<sup>13</sup></b></p> <p><b>Users' needs (looking at the users of the LSME report)</b> Eliminating the value chain dimension from LSME for simplification purposes was not incompatible with serving LSME investors' needs. Maintaining the value chain coverage here allows Set 1 preparers to request information from their suppliers, when:</p> <ul style="list-style-type: none"> <li>- describing their value chain;</li> <li>- reporting its material impacts risks and opportunities in the value chain (SBM-3); and/or</li> <li>- running the materiality assessment and disclosing the process (IRO-1).</li> </ul> <p>These three DRs are an essential element of the reporting, aligned with the definition of impacts (in CSRD, GRI and international instruments of due diligence), as well as with the users' needs (both users of ESRS Set 1 and LSME).</p> <p><b>Perspective 1</b> The materiality assessment regarding on the upstream value chain may be validly conducted by large undertakings without direct information from specific SME suppliers. Set 1</p>

<sup>12</sup> The same is also true of SBM-1 requiring a description of the undertaking's value chain and reflected as a separate row of the value chain map in the [draft EFRAG IG 2 Value chain implementation guidance](#). (Draft EFRAG IG 2: VCIG)

<sup>13</sup> This also includes the IRO-1 specification in Set 1's ESRS E4 *Biodiversity and ecosystems* as well as DR E4-1 in row 9 of the value chain map in the draft EFRAG IG 2: VCIG.



Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME
	<p>undertakings will typically conduct the assessment using average regional or sector data to characterise the areas of potential impacts and risks associated with their value chain. Therefore, these disclosures is not expected to result in significant trickle-down effect on SMEs separately from business or sustainability due diligence processes.</p> <p><b>Perspective 2</b> LSME includes these disclosures (with some simplifications). Therefore, SME applying LSME they will avoid additional requests.</p>
<p>2.</p> <p><b>General approach to Policies, Actions and Targets (PAT)</b></p>	<p><b>Conclusion:</b> no undue effect on SMEs expected from ESRS reporting</p> <p><b>Perspective 1:</b> effects on SME may be due to specific arrangements, if any</p> <p><b>Perspective 2:</b> since appropriate LSME disclosures</p> <p><b>Disclosures in LSME:</b> section 3 PAT<sup>14</sup></p> <p><b>Perspective 1</b> The undertaking’s reporting (both in Set 1 and LSME) shall include upstream and/or downstream value chain information to the extent that those policies and actions involve actors in the value chain. The collection of value chain data from SMEs is due primarily to business reasons and not to ESRS Set 1 reporting (if there are no PAT, no disclosure applies). In fact, the undertaking is expected to leverage information collected for business purposes (implementation of policies and actions, setting and monitoring targets). ESRS reporting may benefit from the value chain information collected for business reasons (i.e., report to the extent that value chain is covered in the PAT), but ESRS reporting is not the cause of the trickle-down or additional burden to SMEs. When the undertaking that prepares its sustainability statement under ESRS Set 1 and it has no PAT to report for a given material matter, it simply states this fact.</p> <p><b>Perspective 2</b> LSME has simplified requirements for PAT that pursue a reporting objective consistent with the one in Set 1, as the ones described above. Set 1 undertaking are expected to leverage specific arrangements, i.e. information that is collected for business purposes. Disclosure is only needed when PAT are in place (when they are not, the undertaking states this fact).</p>
<p>3.</p> <p><b>Transition plan for Climate (E1-1)</b><sup>15</sup>, Specifically paragraph 16 (b) of ESRS E1 requires to disclose the decarbonization</p>	<p><b>Conclusion:</b> no undue effect on SMEs expected from ESRS reporting</p> <ul style="list-style-type: none"> <li>● <b>Perspective 1:</b> effects on SME may be due to specific arrangements, if any</li> <li>● <b>Perspective 2:</b> since appropriate LSME disclosures</li> </ul> <p><b>Disclosures in LSME:</b> section 3 Actions – AR 6 and AR11</p> <p><b>Users’ needs (looking at the users of the LSME report)</b></p>

<sup>14</sup> Reflected in rows 4 and 5 of the value chain map in the draft EFRAG IG 2: VCIG as well as E4-1 as reflected in row 9.

<sup>15</sup> Included in row 9 of the value chain map in the draft EFRAG IG 2: VCIG.

Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME
levers and actions in the value chain.	<p>Transition plan is one of the datapoints required by EU Regulations (Climate Law, Benchmark, EBA Pillar 3) and it is therefore needed for investors both for LSME and ESRS Set 1.</p> <p><b>Perspective 1</b> Set 1 preparers are expected to get information from its suppliers to manage its transition plan and define its actions and decarbonisation levers (when they exist). The information is expected to be collected for sustainability-management purposes, when it involves its suppliers in the actions from its transition plan. Therefore, ESRS reporting of these disclosures is not expected to result in significant additional trickle-down effect on SMEs, in isolation from other considerations such as business or sustainability due diligence processes.</p> <p><b>Perspective 2</b> LSME has simplified requirements for transition plan and actions (decarbonisation levers), to be reported when the undertaking has specific projects in place.</p>
<p>4.</p> <p><b>GHG emissions (E1-6) - Scope 3<sup>16</sup></b></p>	<p><b>Conclusion:</b> no undue effect on SMEs expected from ESRS reporting</p> <ul style="list-style-type: none"> <li>• <b>Perspective 1:</b> since Set 1 preparers will generally use sectoral data instead of collecting direct data</li> <li>• <b>Perspective 2:</b> since covered by LSME disclosures</li> </ul> <p><b>Disclosures in LSME:</b> E1-2 GHG emissions – Scope 3</p> <p><b>Users’ needs:</b> Scope 3 is required by EU Regulations (SFRD), so it required in LSME.</p> <p><b>Perspective 1</b> Valid Scope 3 figures can be calculated using average emission factors (i.e. secondary data). ESRS Set 1 preparers that have Scope 3 GHG emission reduction targets (implying that they agree with their suppliers reductions by their suppliers) may collect direct information from suppliers to monitor progress on such targets in the context of their due diligence processes. In this case, they would have more precise information from suppliers and would not have to use proxies in their ESRS report. Therefore, the ability to ask direct information from suppliers in the context of target setting and monitoring can support more and better understanding of climate actions in the supply chain, but a valid calculation Scope 3 emissions can be achieved without it. Accordingly, there is no additional trickle-down effect due to reporting, in isolation from other considerations such as business or sustainability due diligence processes.</p> <p><b>Perspective 2</b> LSME requires disclosing Scope 3 emissions, when climate change is a material matter.</p>
5.	<p><b>Conclusion:</b> no undue effect on SMEs expected from ESRS reporting</p>

<sup>16</sup> Included in row 8 of the value chain map in the draft EFRAG IG 2: VCIG.

Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME
<p><b>GHG removals (E1-7)</b><sup>13</sup></p>	<ul style="list-style-type: none"> <li>• <b>Perspective 1:</b> effects on SME may be due to specific arrangements, if any</li> <li>• <b>Perspective 2:</b> since appropriate LSME disclosures</li> </ul> <p><b>Disclosures in LSME:</b> GHG removals (E1-3)</p> <p><b>Perspective 1</b> Set 1 preparers shall report on GHG removals involving value chain actors, only when they have projects of GHG removals and decarbonisation levers that involve suppliers. As described above for PAT and transition plans, in this case direct supplier data is needed to manage the project and not for ESRS reporting. ESRS reporting will benefit from this, but is not the cause of the trickle-down effect.</p> <p><b>Perspective 2</b> LSME requires disclosing GHG removals, when specific projects are in place.</p>
<p>6.</p> <p><b>Substances of concern and substances of very high concern (E2-5)</b><sup>17</sup> (as defined in the REACH regulation<sup>18</sup>)</p>	<p><b>Conclusion:</b> no undue effect on SMEs expected from ESRS reporting</p> <p>Perspective 1: effects on SME may be due to specific arrangements, if any</p> <p>Perspective 2: since appropriate LSME disclosures</p> <p><b>Disclosures in LSME:</b> Substances of concern and substances of very high concern (E2-2)</p> <p><b>Users' needs:</b> Refers to substances of concern and very high concern that are procured by the Set 1 (or LSME) preparers. This datapoint is needed by users when pollution and/or substances of concern/very high concern are a material matter to the reporter.</p> <p><b>Perspective 1</b> This datapoint is limited to those substances that are procured by the undertaking (substances used by the suppliers are not disclosed). To comply with the REACH 2 regulation, large undertakings an LSME preparers must identify and manage the risks linked to substances manufactured and marketed in the EU. Similarly, monitoring of substances of high concern is part of the eco-design regulation. As such, preparers need this information to manage their business, not for reporting purposes. ESRS reporting may benefit from the information collected for business reasons, but is not the cause.</p> <p><b>Perspective 2</b> LSME requires disclosing substances of concern and high concern, when material.</p>

<sup>17</sup> Referred to as procured materials, row 7 of the value chain map in the draft EFRAG IG 2: VCIG. Resource outflows per E5-4 in row 9 of the value chain map given SME specificities and the qualitative nature of the requirement.

<sup>18</sup> Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

ESRS LSME ED Basis for conclusions

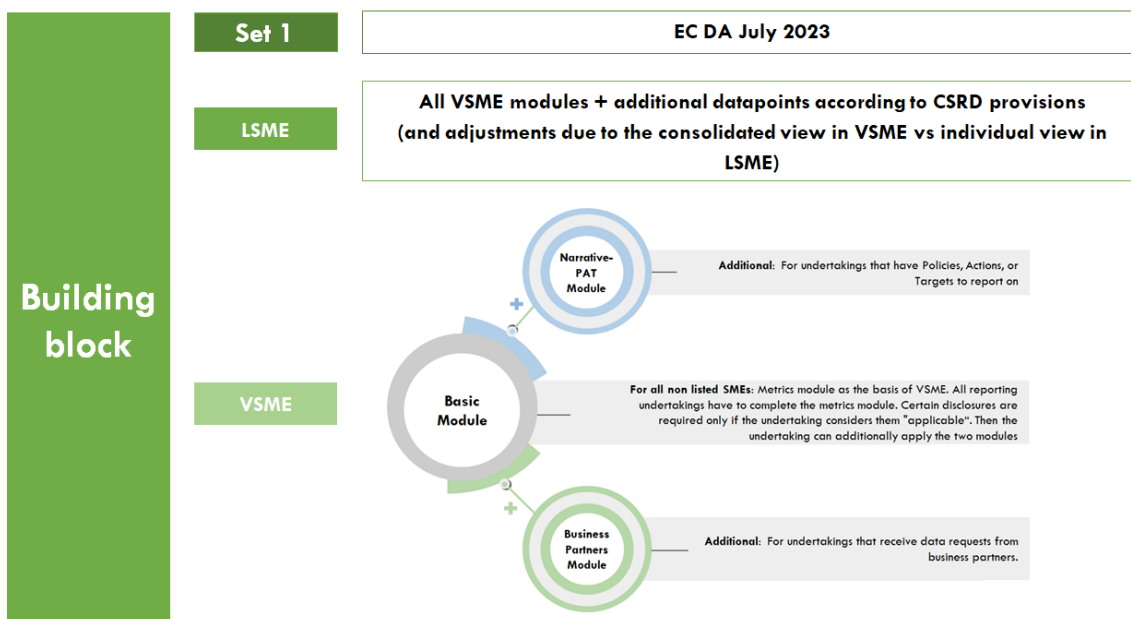
Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME
<p>7.</p> <p><b>Resource inflows (E5-4)<sup>14</sup></b></p>	<p><b>Conclusion:</b> no undue effect on SMEs expected from ESRS reporting</p> <p><b>Perspective 1:</b> effects on SME may be due to specific arrangements, if any</p> <p><b>Perspective 2:</b> since appropriate LSME disclosures</p> <hr/> <p><b>Disclosures in LSME:</b> Resource inflows (E5-1)</p> <hr/> <p><b>Users' needs:</b> Qualitative disclosure has been maintained in LSME as it is needed by users, when resource inflows are a material sustainability matter.</p> <hr/> <p><b>Perspective 1</b></p> <p>When resource inflows are a material matter, LSME requires inclusion of a description (qualitative only) of the resource inflows (i.e. products and materials, water and property, plant and equipment) impacts, risks and opportunities used in the undertaking's own operations and along its upstream value chain. This is a qualitative risk disclosure on impacts and dependencies on certain materials, which should also be in the scope of due diligence obligations (e.g. conflict minerals). However, when disclosing quantitative metrics of materials used in the production of the undertaking's products and services, this relates only to own operations (both in Set 1 and LSME). For undertakings where resource inflows are a material sustainability matter having a knowledge of the sustainability profile or their sourced material will be likely needed, which may result in collection of data from SME suppliers<sup>19</sup>.</p> <hr/> <p><b>Perspective 2</b></p> <p>LSME requires to disclose inflows when they are material.</p>
<p>8.</p> <p><b>Entity-specific disclosures</b></p>	<p><b>Conclusion:</b></p> <p><b>Perspective 1:</b> Possible trickle-down effect under specific arrangements for Set 1 preparers to be able to cover material sector information and / or to disclose entity-specific disclosure, when they involve the value chain</p> <p><b>Perspective 2:</b> not applicable, as the nature of the datapoint required by large undertakings to SMEs cannot be defined (due to entity-specific nature of the disclosure).</p> <hr/> <p><b>Disclosures in LSME:</b></p> <p>In addition to the specific disclosure requirements laid down in LSME, when an undertaking concludes that an impact or risk is not covered or not covered with sufficient granularity by a</p>

<sup>19</sup> For completeness' sake, the disclosure requirement E5-2 resource outflows also necessitates of a description of the materials similar to resource inflows; however, this is related to the downstream value chain (consumers and end-users), not to the suppliers. It was not considered relevant for the scope of the LSME ESRS ED.

Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME
	<p>section of a standard but is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking's sustainability-related impacts and risks. The inclusion of the entity-specific principle in LSME is needed, to provide a proper reflection of the undertaking's impacts and risks to users. This is particularly important while sector ESRS are not in place, but it may be important afterwards. Additional direct collection of data from SME suppliers may be necessary to prepare value chain related entity-specific disclosure.</p>

## Building blocks approach

- BC50. The ESRS LSME ED follows the 'building blocks' approach developed by EFRAG for the reporting of the smaller and less complex undertakings. The *building block approach* is essentially a scalable approach, aimed at allowing an undertaking to be able to level up in terms of extension and deepening of the disclosure requirements, ensuring consistency in the methodological approach and in terminology. This approach intends to comply with the provisions of the CSRD for the sustainability reporting standards, which shall ensure the quality of reported information by requiring that it is understandable, relevant, verifiable, comparable and represented in a faithful manner. It is also expected to contribute to building a consistent ESRS literature applicable to different types of entities.
- BC51. The building blocks system conceptually consists of two main steps, each with two progressive levels of granularity and complexity, but having in common the underlying terminology and the key general requirements of:
- (a) the ESRS LSME ED and
  - (b) ESRS Set 1.
- BC52. EFRAG has developed a voluntary standard draft for non-listed SMEs (VSME ED), issued for public consultation jointly to ESRS LSME ED. While the ED has been developed as a simplification of the standards for large undertakings, the VSME ED has been designed on the basis of the frequently observed data requests from lenders, investors and corporate clients of SMEs. The VSME ED uses a more simplified language than the ESRS LSME ED (and Set 1); however despite the priority being proportionality, coherence has been preserved between VSME ED and ESRS LSME ED (and Set 1) in terms of structure, sustainability matters and key defined terms. As a result, in a broader sense the building blocks approach includes the following 4 steps:
- (a) VSME (Basic module), 'metrics data-set';
  - (b) VSME (Narrative - PAT module);
  - (c) VSME (Business partners module); and
  - (d) ESRS LSME ED: All VSME modules plus other datapoints stemming from other EU regulations (a complete list is provided in appendix E) as well as additional datapoints gathered due to CSRD's and user' needs (and adjustments made due to the consolidated view in VSME versus the individual view in the ESRS LSME ED).
- BC53. The *building blocks* approach is described in the figure below.



## Section 1 General Requirements

### Objective of Section 1

- BC54. The objective of the [draft] ESRS LSME ED – Section 1 *General Requirements* is to cover overarching general requirements for the preparation and presentation of the sustainability statement for LSMEs, derived from ESRS 1 General Requirements. This Section serves as an ‘umbrella’ for the application of the ESRS LSME ED. Its role is to provide contents that are valid across all the other sections and that constitute conceptual references fostering a robust and consistent application of the disclosure requirements in other sections.
- BC55. The following general requirements for sustainability reporting have been included:
- qualitative characteristics of information;
  - double materiality as the basis for sustainability disclosures;
  - value chain; and
  - time horizons.
- BC56. The EFRAG SR TEG and EFRAG SRB also considered it necessary to give overall guidance on:
- the preparation and presentation of sustainability information,
  - the structure of the sustainability statement and
  - linkages with other parts of corporate reporting and connected information and transitional provisions.

### Interaction with the contents of Section 2

- BC57. Section 1 *General requirements*, Section 2 *General disclosures* and Section 3 *Policies, actions and targets* interact significantly. Some requirements in Section 1 directly correspond to or prompt disclosures that are stipulated in Section 2 and Section 3.
- BC58. The SRB believes that the references in Section 1 to Disclosure Requirements in Sections 2 and 3, and vice versa, provide an adequate linkage between requirement and a related disclosure for preparers.

*ESRS LSME ED Basis for conclusions*

BC59. In the following table is reported a summary of the main simplifications and amendments discussed and approved at the EFRAG SR TEG and EFRAG SRB meetings in relation to the ESRS LSME ED Section 1 *General requirements* compared to ESRS 1.

**Main simplifications and amendments from ESRS Set 1 to the ESRS LSME ED**

ESRS 1 – General Requirements	ESRS LSME ED – Section 1: General Requirements
Scope	Adjusted to match CSRD LSME scope
Materiality  Material matters and materiality of information	<p>Same approach as in Set 1 Delegated Act. [July 2023]</p> <p>ESRS LSME ED Section 2 <i>general requirements</i> is mandatory (if not differently specified – see Appendix H <i>List of Disclosure/Application Requirements in Section 2</i>). The rest of the disclosures are subject to materiality assessment.</p> <p>The proposal to reduce the scope of materiality and increase the mandatory requirement as this would reduce the need for judgment and costs and resources associated to materiality analysis was not retained.</p> <p>Added an AR to better specify how an undertaking shall assess impacts and risks in its value chain.</p>
Opportunities and positive impacts	Reporting on opportunities and positive impacts on voluntary basis.
Value chain and estimation using sector averages and proxies	<p>Added a DR in order to better specify that an LSME can rely on information contained in sustainability statement of an actor in its value chain.</p> <p>Added an AR to clarify the use of proxies and sector data when there is a large number of actors in the LSME value chain. Furthermore, a clarification has been added to support a balanced exercise of judgement.</p>
Presenting comparative information	Presenting comparative information is exempted when it is not possible to adjust comparative information with reasonable effort (in Set 1 is ‘when impracticable’). The undertaking shall disclose this to be the case.
Sources of estimation and outcome uncertainty	Simplified criteria to be considered when judging if a possible future event is material.
Updating disclosures about events after the end of the reporting period	Updating disclosures about events after the end of the reporting period if possible, with reasonable effort. If not possible, then only narrative information. Eliminated the requirement to disclose effects of events after the end of the reporting period.
Reporting errors prior period	Restating the comparative amounts not required when it is not possible with reasonable effort (in Set 1 is ‘when impracticable’). The undertaking shall disclose this to be the case.
Impacts, risks and opportunities	<p>The disclosures shall cover material impacts and risks. Opportunities may be disclosed by the undertaking as voluntary information.</p> <ul style="list-style-type: none"> <li>• The reporting covers material impacts and risks. Opportunities are voluntary.</li> <li>• The undertaking shall disclose negative impacts. Positive impacts are voluntary.</li> </ul>

*ESRS LSME ED Basis for conclusions*

<b>ESRS 1 – General Requirements</b>	<b>ESRS LSME ED – Section 1: General Requirements</b>
Classified and sensitive information and information on intellectual property, know-how or results of innovation	Beside intellectual property, the draft includes (see BP-1) the possibility for LSMEs to omit, in exceptional cases, information related to impending developments or matters in the course of negotiation. This exemption is not included in CSRD for LSME (Art. 19a(6) derogates from Art. 19a(2) to (4)), but it has been added considering that the rationale of the ESRS LSME ED is to simplify and make sustainability reporting more proportionate for LSMEs. Granting that exemption only to large undertakings would be inconsistent with this rationale.
Reporting undertaking and value chain	Expanded the approach to associates and joint ventures to include subsidiaries. Added an illustration in AR to illustrate the approach to impact metrics for subsidiaries, associates and joint ventures that are actors in the value chain.
Due diligence	The undertaking is requested to disclose whether it has adopted or not sustainability due diligence process(es). If so, a brief description shall be provided.
Connectivity	Simplified the language. Specific consideration on connecting the monetary amounts in sustainability statement (individual perspective) with consolidated financial statements.
Policies	Examples in AR of 'not formalised' policies.
Reporting on individual basis	Provisions related to consolidation have been deleted in line with Art. 19a(6) and individual reporting.
Phased-in transitional provisions	Same phase-in as Set 1 extended to undertakings in the scope of the ESRS LSME ED that will not choose to opt out or that cannot opt out for the first two years adjusted for 50 employees.  Included four additional phase-ins.

**Detailed information on the main simplifications and amendments compared to ESRS for large undertakings**

***Scope of application of the ESRS LSME ED and Consolidation***

- BC60. The ESRS LSME ED set by Art. 29c of Directive 2013/34/EU, as inserted by Article 1 of the CSRD, is a standard that is applicable to LSMEs on an optional basis in order to allow small- and medium-sized undertakings to apply the derogation granted by Article 19a(6) and limit their sustainability reporting accordingly. Therefore, an LSME may decide to apply ESRS for large undertakings (Set 1) instead of the ESRS LSME ED.
- BC61. The ESRS LSME ED is applicable to separate reporting, i.e., individual only. According to the formulation of Article 29a(1) of Directive 2013/34/EU as replaced by Article 1 of the CSRD, consolidated sustainability reporting occurs when the parent undertakings of a large group, as referred to in Article 3(7) of Directive 2013/34/EU, shall include in the consolidated management report information necessary to understand the group's impacts on sustainability matters and information necessary to understand how sustainability matters affect the group's development, performance and position. Given the fact that, by explicit regulatory provision, consolidated sustainability reporting to be included in the consolidated management report concerns parent undertakings of a large group, an LSME which is parent undertaking of a large group (which does not happen frequently but cannot be excluded) is obliged to apply the provisions contained in Article 29a(1), which refer to Set 1 of ESRS, i.e., ESRS for large undertakings, since Art. 29a makes no reference to ESRS for LSMEs, thus excluding the use of the ESRS LSME ED from consolidated sustainability reporting.



- BC62. It should be noted that, under Art. 29a(7), if an LSME is providing consolidated sustainability reporting (using the ESRS Set 1), it is exempted from providing individual sustainability reporting. Under Art. 29a(8), LSMEs are exempted from carrying out their consolidated sustainability reporting if they are included in the consolidated management report of another parent company that has provided consolidated sustainability reporting in accordance with Art. 29a (and if certain other specific conditions are met). Moreover, under Art. 19a(9) listed SMEs are exempted from carrying out individual sustainability reporting if they are included in the consolidated management report of a parent company that has carried out consolidated sustainability reporting in accordance with Art. 29a (and if certain other specific conditions are met).
- BC63. Based on Art. 4(5) of the Transparency Directive (Directive 2004/109/EC as amended by the CSRD), which requires all undertakings (EU and non-EU) listed on the EU regulated markets to report their sustainability information in compliance with CSRD rules, third-country listed SMEs are required to comply with the same obligation set out for EU listed SMEs (e.g., a third-country LSME parent undertaking of a large group has to report at a consolidated level in accordance with Article 29a and use ESRS for large undertakings).
- BC64. An EU LSME, which is subsidiary of a non-EU parent undertaking, is included in the scope of the ESRS LSME ED. Therefore, such undertaking has to provide sustainability reporting according to the CSRD and may apply the ESRS LSME ED when reporting on an individual basis under Art. 19a. If the non-EU parent undertaking of the EU listed SME decides to carry out consolidated sustainability reporting under Art 29a, in such a case the LSME is exempted from providing individual sustainability reporting.
- BC65. Third-country SMEs that are listed on the EU regulated markets are required to carry out sustainability reporting based on Article 4(5) of the Transparency Directive. In principle, these third-country listed SMEs (public-interest entities with securities traded on a regulated market in the European Union) should be subject to the same rules set out for the EU SMEs listed on the EU regulated markets. This means that third-country listed SMEs should indeed have also the option to use the ESRS for listed SMEs as an alternative to ESRS full when disclosing their individual sustainability statement.
- BC66. An EU LSME subsidiary of a non-EU parent company in the scope of Art 40a would have to report on a subset of the information listed in Art. 29a in accordance with the ESRS for third countries. The ESRS LSME ED is not an option in that case.

### ***Materiality***

- BC67. When discussing the materiality approach taken for the ESRS LSME ED, one of the initial considerations was whether having a narrower scope of materiality would be detrimental or beneficial to the SME preparers. On the one hand, more disclosures in the scope of materiality means more instances where judgement is needed, and this involves more skills and more involvement of the top management as well as more robust decision-making processes, oversight and validation, which comes with costs, especially for less resourced undertakings (SMEs). On the other hand, less disclosures in the scope of materiality means, depending on the outcome of the materiality assessment, a lower number of datapoints to be reported annually (those that are material).
- After discussions within EFRAG SR TEG and EFRAG SRB, it was finally agreed not to reduce the scope of application of the materiality approach and to follow the same approach taken in Set 1.
- BC68. On the other hand, due to some simplifications/amendments adopted in Section 2 (subsequently described and commented), it was necessary to distinguish between DRs (and related application requirements or 'ARs') to be disclosed irrespective of the materiality assessment (because considered relevant for the ESRS LSME ED sustainability statement) and DRs fully subject to materiality assessment. Appendix H of Section 1 lists all the DRs/ARs to be disclosed irrespective of the materiality assessment, together with those to be disclosed only if the LSME has adopted a particular process/activity ('to be disclosed if you have', i.e., due diligence process, as commented below, and stakeholder engagement), and those to be disclosed on a merely voluntary basis (i.e., opportunities, as commented below).

- BC69. SRB agreed to introduce a new AR in *Chapter 3.3 Application requirements – Double materiality* (AR 9) to support an LSME when assessing materiality of impacts and risks in its value chain in the presence of a high number of counterparties.
- BC70. It was also decided to include in each topical Section (Section 3 through 6) a paragraph in each of the respective topical objectives that explicitly refer to the assessment of materiality of the disclosures to be reported. These additions in the ED clarify that the undertakings shall disclose, following the materiality assessment that is prescribed in this chapter, only those disclosure requirements that have been assessed to be material. This addition does not introduce a different concept or approach compared to Set 1 – it solely provides additional insight into what is expected from the undertaking in terms of disclosing metrics in the topical sections of the ED.

### **Opportunities and positive impacts**

- BC71. The derogation granted to LSMEs by Article 19a(6) as replaced by the CSRD does not explicitly contemplate disclosure on opportunities (thus marking a difference compared to provisions for large undertakings). The inclusion of opportunities as a mandatory reporting objective was excluded as not explicitly contemplated at the level one regulation. However, noting that users may be interested in information about opportunities and that, when such opportunities are actually pursued by the undertaking, reporting on them would be relevant, the EFRAG SR TEG and SRB agreed that opportunities for the undertaking related to sustainability matters are not to be contemplated in the disclosure requirement but can still be disclosed on a voluntary basis. In order to avoid inconsistencies with respect to the CSRD provision to LSMEs, the term 'opportunities' has generally been dropped from the titles of the paragraphs and from the overall text of this Standard.
- BC72. Paragraph 17 of Section 1 specifies that the term 'impacts' refers only to negative impacts unless otherwise specified. Therefore, unlike the approach in ESRS for large undertakings in which the disclosure includes both positive and negative impacts, this Standard requires disclosure only on negative impacts. Such decision is based on the fact that letter (c) of Article 19a(6) as replaced by the CSRD requires the provision of information on 'the principal actual or potential adverse impacts of the undertaking on sustainability matters, and any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts' when applying the mentioned derogation granted to LSMEs. Given this specific CSRD requirement, it was agreed not to request the description of positive impacts. The fact that disclosure on positive impacts is not expressly required by the aforementioned derogation does not imply that the LSME can still report such information as voluntary content nor that it can be excluded that the LSME will do so independently. To avoid inconsistencies with respect to the CSRD provision to LSMEs, the term 'positive impacts' has generally been dropped from the titles of the paragraphs and in the overall text of this Standard.

### **Value chain and estimation using sector averages and proxies**

- BC73. In the context of the value chain cap role of LSME, considering that obtaining value chain information could be particularly challenging for an LSME, the EFRAG SRB agreed to include a new disclosure requirement (see Chapter 4.2 *Estimation using sector averages and proxies* paragraph 65) to clarify that, when disclosing material information on its value chain, the undertaking may refer to information included in the sustainability statement of an actor in its value chain when such information is:
- (a) contained in the ESRS sustainability statement, assured under the provisions of the CSRD, and
  - (b) published in other documents defined in accordance with other standards or frameworks (such as GRI Standards, IFRS Sustainability Disclosure Standards, EMAS), provided that such information is audited with the same level of assurance as the ESRS sustainability statement.

- BC74. Furthermore, the EFRAG SRB agreed to include a new AR to clarify the use of proxies and sector data when there is a large number of actors in the LSME value chain. Furthermore, a new AR paragraph has been added to serve the purpose of illustrating the efforts that can be reasonably expected from undertakings in preparing their value chain information (see Application Requirements Chapter 4.2 *Estimation using sector averages and proxies* AR 21).

#### ***Sources of estimation and outcome uncertainty***

- BC75. EFRAG SRB agreed to simplify the criteria to be considered when judging if a possible future event is material, granting the possibility to consider the range of severity and likelihood of the impacts on people or the environment resulting from the possible events instead of the full range of possible outcomes and their likelihood.

#### ***Updating disclosures on events after the end of the reporting period***

- BC76. The EFRAG SRB agreed to introduce proportionality and to grant more flexibility to the concept of 'reasonable effort' when updating information about events taking place after the end of the reporting period. If not possible with reasonable effort to provide quantitative effects, the undertaking shall disclose only narrative information. The requirement to disclose the effect of events after the reporting period has been eliminated.

#### ***Restatement of comparative information***

- BC77. This standard introduces a simplification compared to ESRS for large undertakings concerning the presentation of comparative information in case of restatement. In particular, the presentation of restated comparative information may be omitted when such restatement is not achievable with reasonable effort. The term 'reasonable effort' allows for wider margins of exemption for LSMEs than those provided for in ESRS 1, in which documenting the restatement of comparative figures is required 'unless it is impracticable to do so'. If the undertaking omits restated comparative information because it cannot provide it with reasonable effort, it shall disclose this to be the case in its sustainability report in order to properly inform the user of the sustainability information.
- BC78. Similarly, the same simplification is introduced with regard to the restatement of comparative information in the event of reporting errors in prior periods and with regard to comparative figures when a metric or target is redefined or replaced.
- BC79. Such simplifications were introduced to take into proper consideration the principle of proportionality and to provide more flexibility to LSMEs when dealing with the complexity of activities related to the restatement of comparative information.

#### ***Classified and sensitive information and information on intellectual property, know-how or results of innovation***

- BC80. In line with this, ESRS for large undertakings may omit classified information or sensitive information even if such information is considered material as well as omit the disclosure of information about strategy, plans and actions corresponding to intellectual property, know-how or the results of innovation. In order to be more flexible and proportionate, compared to ESRS for large undertakings in Set 1 EFRAG SR TEG and SRB decided to limit the phrasing to only 'reasonable effort', while in Set 1 it reads 'every reasonable effort' 'to ensure that beyond the omission of the specific classified information or sensitive information, or of the specific piece of information corresponding to intellectual property, know-how or the results of innovation, the overall relevance of the disclosure in question is not impaired'.

- BC81. The CSRD provides the possibility for member states to allow undertakings that apply the ESRS for large undertakings to omit information related to impending developments or matters in the course of negotiation that are exceptional. The EFRAG SR TEG and SRB introduced the same option in the text of the LSME ESRS ED (see Section 1 chapter 6.7 *Matters in course of negotiation*). This was done to provide additional flexibility to SMEs. The omission is possible in cases where, in the duly justified opinion of the members of the administrative, management and supervisory bodies, acting within the competences assigned to them by national law, and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking provided that such omission does not prevent a fair and balanced understanding of the undertaking's development, performance and position and of the impact of its activity (see BP-1, Section 2).

### **Due diligence**

- BC82. Due diligence is defined as the process by which undertakings identify, prevent, mitigate and account for how they address the actual and potential negative impacts on the environment and people connected with their business (see ESRS 1.59). The derogation granted to LSMEs by Article 19a(6) as replaced by the CSRD does not explicitly mention the requirement to describe 'the due diligence process implemented by the undertaking with regard to sustainability matters, and, where applicable, in line with Union requirements on undertakings to conduct a due diligence process'. However, the content of letter (c) of Article 19a(6) states that the LSME is required to disclose 'any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts.' This language implicitly admits the existence of the typical elements of the due diligence process/activity in the SME context. Furthermore, Art. 29c as inserted by the CSRD refers to Art. 29b (2-5) that includes value chain in the coverage of the reporting.
- BC83. EFRAG SR TEG and EFRAG SRB discussed the possibility and opportunity to include disclosures about due diligence processes in LSME ESRS ED despite due diligence not being explicitly mentioned in the minimum content, as explained above. Some EFRAG SRB members suggested to consider this as an optional content, using the phrasing 'may disclose'. On the contrary, others noted that due diligence processes are central to the management of impacts and that the language in the CSRD refers to the key elements in those processes.
- BC84. A compromise was agreed on a consensual basis to include the content related to the due diligence processes only when it is in place (identified in this document as 'report if you have').
- BC85. The extent of the disclosure requested was reduced by asking LSMEs for a 'brief' description of such process(es) (for more details, see the chapter Disclosure Requirement 4 (GOV-2) - Due diligence in this document).
- BC86. Section 1 of this Standard has been amended and does not include a specific paragraph on due diligence (simplified in impact materiality).

### **Connectivity**

- BC87. SRB decided to simplify the language and streamline it to achieve a more proportionate requirement while at the same time ensuring a certain degree of consistency with the financial statements. The disclosure requirement was simplified as follows: 'the information provided in its sustainability statement shall be coherent with what is reported in the financial statements and presented in a way that facilitates the understanding of the linkages that exist with the information reported in different documents, for example using appropriate cross references'.

## **Policies**

BC88. During some meetings with the EFRAG SME Expert Working Group and workshops with the EFRAG SME Community, it was commented that, because of their generally less structured organization, small- and medium-sized undertakings could have actions and targets in place to address material sustainability matters (even if listed on a regulated market) although not formalised in a written document. It was, therefore, suggested to specify that the term 'policy' also includes such informal practices or activities to manage sustainability matters. After discussion at EFRAG SR TEG, it was agreed to clarify this in the Application Requirements. See, for instance, AR 46 in Section 2, which states the following: 'If the undertaking has not formalised a policy but has implemented actions or defined targets through which the undertaking seeks to address material impacts and risks, it discloses them as actions and/or targets.'

## **Detailed information on the key discussions**

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### **Entity-specific disclosures**

BC89. The inclusion of entity-specific disclosures in the ESRS LSME ED was discussed at EFRAG SR TEG and EFRAG SRB meeting. Some members did not agree with the inclusion of entity specific disclosures for LSMEs, as this entails a certain level of judgement which may be more difficult to exercise for a less resourced entity. Others proposed to consider such a disclosure on a voluntary basis only. A consensus was achieved to align the treatment of topic to the approach for ESRS for large undertakings and to avoid unfair treatment of LSMEs' investors compared to what they get for large undertakings.

### **Regulation (EU) 2020/852 disclosures – Sustainable finance taxonomy**

BC90. The undertakings subject to the scope of the CSRD are also obliged to disclose information required by Article 8 of the Regulation (EU) 2020/852 (Taxonomy Regulation). Consistent with the approach taken for ESRS for large undertakings, presenting such information alongside the indicators would enhance understandability.

BC91. The ESRS LSME ED does not impose additional obligations on undertakings in connection with these regulations nor does it interfere with the content of the definitions and specifications contained in the Regulatory Technical Standards. Section 1 should contain some sort of 'placeholder' for the Taxonomy disclosure in requiring that the undertaking reports the disclosures pursuant to Article 8 of the Taxonomy regulation (2020/852) in an identifiable part of the management report.

### **Other sustainability information**

BC92. The ESRS LSME ED retains the same approach as in ESRS for large undertakings for the inclusion in the sustainability statement of disclosures stemming from other regulations. This is related to Sustainable Finance Disclosure Regulation (2019/2088) and article 434 of regulation 575/2013 on prudential requirements for credit institutions and investment firms.

BC93. Such disclosures may be reported in the sustainability statement if they meet the characteristics of information quality as outlined in Section 1 of this ED.

### **Transitional provision: List of Disclosure Requirements that are phased-in for [draft] ESRS LSME ED to year two or subsequent years**

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BC94. The EFRAG SRB and EFRAG SR TEG decided to grant the same list of the phase-in defined in Set 1 also for undertakings in scope of ESRS LSME ED that will not choose to opt out (i.e., that will not report in 2026/27) or that cannot opt out for the first two years (CSRD Art. 19a (7)), adjusted for 50 employees instead of 750, to reflect the size of LSMEs.

## ESRS LSME ED Basis for conclusions

- BC95. Furthermore, in order to give more flexibility to LSMEs, the EFRAG SRB and EFRAG SR TEG agreed to include additional phase-in compared to Set 1:
- (a) DR S1-6 Training metrics: Phase-in introduced for the gender breakdown;
  - (b) DR S1-9 Incidents and severe human rights impacts: Phase-in introduced for the reconciliation of monetary amounts;
  - (c) DR E1-1 Energy consumption and mix (Energy intensity based on net revenue): Phase-in introduced for the reconciliation of monetary amounts; and
  - (d) DR E1-2 Gross Scopes 1, 2, 3 and Total GHG emissions (GHG intensity based on net revenue): Phase-in introduced for the reconciliation of monetary amounts.
- BC96. A list of the phased-in is included in *Appendix C* of Section 1 of ESRS LSME ED.

## Section 2 General Disclosures

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### **Objective of Section 2**

- BC97. The objective of the ESRS LSME ED – Section 2 General disclosures is to cover sustainability disclosure requirements that are of a general nature, i.e., that apply to all undertakings regardless of their sector of activity (i.e., sector agnostic) and apply across sustainability topics (i.e., cross-cutting). The objective is to avoid having the need to address these requirements multiple times under topical sections and therefore to foster a comprehensive understanding of sustainability-related cross-cutting information. This approach is aligned with the comprehensive approach of the Corporate Sustainability Reporting Directive (CSRD) regarding sustainability matters that are to be covered.
- BC98. This section covers the following reporting areas identified in Article 19a (6):
- (a) Governance,
  - (b) Strategy and business model and
  - (c) Impact and risk management.
- BC99. In the following table is reported a summary of the main simplifications and amendments discussed and approved at the EFRAG SR TEG and EFRAG SRB meetings in relation to ESRS LSME ED Section 2 *General disclosures* compared to ESRS 2.

### **Main simplifications and amendments from ESRS Set 1 to ESRS LSME ED**

ESRS 2 – General Disclosures	ESRS LSME ED Section 2 – General Disclosures
Disclosure requirement BP-1, and Disclosure requirement BP-2	DR-1 (BP 1) and DR-2 (BP 2): Reduced granularity in value chain estimation. Option to not provide restated comparative figures when it is not possible to do so with reasonable effort.
Disclosure requirement GOV-1	DR-3 (GOV 1): Reduced granularity, simplified (EU datapoints are kept) and included parts of Set 1 GOV-2 (points c) and d).
Disclosure requirement GOV-2	Simplified and included in DR-3 (GOV-1).
Disclosure requirement GOV-3	Not included
Disclosure requirement GOV-4	DR-4 (GOV 2): Sustainability due diligence. To disclose whether it has applied DDP or it has not (EU datapoint). Paragraphs 58-61 of draft DA ESRS 1 excluded.
Disclosure requirement GOV-5	Not included.
Disclosure requirement SBM-1	DR-5 (SBM 1): Simplification instead of revenue breakdown; requirement to disclose the list of significant ESRS sectors in which the undertaking operates.

ESRS 2 – General Disclosures	ESRS LSME ED Section 2 – General Disclosures
Disclosure requirement SBM-2	DR-6 (SBM 2): Interests and views of stakeholders applies only in the case that stakeholder engagement occurs. Specific AR to support LSMEs.
Disclosure requirement SBM-3	DR-7 (SBM-3): Reduced granularity, especially with regard to the information about the resilience of the undertaking’s strategy and business model, is no longer required.
New Disclosure requirement	Voluntary disclosure – 8: Material opportunities and positive impacts as voluntary content.
Disclosure requirement IRO-1	IR 1: Incorporation of the contents related to IRO 1 in the topical standards ESRS SET1 1 (main body) in a summarised way; new centralised disclosure on processes (location of disclosure up to undertaking) to identify and assess material impact and risks.

**BP-1 General basis for preparation of the sustainability statement**

- BC100. The reference to ‘consolidated sustainability statement’ has been eliminated, considering that ESRS LSME ED is only on individual basis. Nevertheless, a specific reference to information was included about subsidiaries to be considered as part of the undertaking’s value chain based on results of the undertaking’s materiality assessment.
- BC101. Reflecting the decision to give the option to omit in exceptional cases, information relating to impending developments or matters in the course of negotiation (for more details see Section 1), BP-1 includes a specific reference to this option.

**BP-2 Disclosures in relation to specific circumstances**

- BC102. All cases for which a specific disclosure is required are grouped in this DR. These disclosures cover options, assumptions or changes in sustainability statement occurred during the reporting period such as: time horizons, value chain estimation, sources of estimation and outcome uncertainty, changes in preparation of the data or presentation of the data, errors in previous period and use of phase-in provisions for certain disclosures.

**Time horizons**

- BC103. After several EFRAG SR TEG and EFRAG SRB meetings on the time horizons definition, the final decision was to keep the same definitions and requirements as defined in ESRS for large undertakings for consistency and to ensure comparability among the sustainability statement.

**Value chain estimation**

- BC104. It was decided to reduce the granularity of requirements in value chain estimation to be more proportionate for LSMEs. In this regard, the SRB agreed to not include the requirements related to the description of the level of accuracy of the value chain estimation. Furthermore, to be consistent with the approach taken on including subsidiaries through the value chain, if the undertaking has estimated metrics when it describes the basis for preparation, it shall explain how data of the subsidiaries have been considered.

**Sources of estimation and outcome uncertainty**

- BC105. It was decided to reduce the granularity of the requirements when the undertaking includes in its sustainability statement quantitative metrics and monetary amounts subject to a high level of measurement uncertainty. In particular, the decision taken is to replace the specific requirements in ESRS 2 paragraph 11 (b) on the sources of measurements uncertainty and assumptions/approximations with a more flexible requirement to ‘disclose information to enable users to understand those uncertainties’.

**Changes in preparation or presentation of sustainability information**

BC106. The EFRAG SRB and EFRAG SR TEG decided to reduce the granularity and to simplify the requirements related to changes in preparation or presentation of sustainability information. In particular, the decision taken is to:

- (a) not include the requirement on the explanation of the reasons related to the changes and
- (b) introduce the concept of 'where possible with reasonable effort' instead of 'impracticable' when the undertaking shall provide restated comparative figures and disclose the difference. If it is not possible to provide the information with reasonable effort, the undertaking does not need to disclose that fact.

### ***Reporting errors in prior periods***

BC107. The EFRAG SRB and EFRAG SR TEG decided to simplify the requirements related to reporting errors in prior periods. In particular, the decision taken is to introduce the concept of 'where possible with reasonable effort' instead of 'practicable' when the undertaking shall disclose the correction for each prior period. In addition, the requirement to disclose the effect of events occurred after the end of the reporting period was eliminated for simplification.

### ***Use of phase-in provisions in accordance with Appendix C of Section 1***

BC108. The EFRAG SRB and EFRAG SR TEG, in accordance with the decision made on the phase-in provisions (for details see Section 1), and considering the threshold of 50 employees, decided to include the same disclosure requirements defined in ESRS 2 paragraph 17.

### ***DR 3 (GOV-1) – The role of the administrative, management and supervisory bodies***

BC109. The disclosure requirements were discussed in several meetings of EFRAG SRB and EFRAG SR TEG, yielding different views on the approach to be followed. Some members shared their preference to have more proportionate requirements considering a less complex governance structure of LSMEs, and others would prefer to have the same level of information as in ESRS Set 1. The final decision was to:

- (a) reduce the granularity and to group disclosure requirements for roles and responsibilities of governance bodies. Furthermore, for proportionality reasons and considering CSRD provisions, the EFRAG SRB and EFRAG SR TEG decided not to include the specific requirement on 'experience relevant to the sectors, products and geographic locations of the undertaking' (ESRS 2 par. 21 (c));
- (b) include the requirements on dedicated controls and procedures to manage sustainability impacts and risks;
- (c) include simplified requirements defined in ESRS 2 GOV-2 on how frequently the governance bodies are informed about sustainability impacts and risks and, if applicable, on the related policies, actions, targets; and
- (d) include the requirements on assessing if governance bodies have appropriate skills and expertise.

### ***ESRS for large undertakings GOV – 3 and GOV-5***

BC110. The EFRAG SRB and EFRAG SR TEG decided not to include the requirements defined in ESRS 2 GOV – 3 and GOV-5 as they are not explicitly mentioned in CSRD Art. 19(a) 6.



**DR 4 (GOV-2) – Due diligence**

- BC111. This disclosure requirement was discussed several times at EFRAG SR TEG and EFRAG SRB, with members having split views. Some members questioned the inclusion of due diligence considering that the SMEs are outside the scope of the proposed Corporate Sustainability Due Diligence Directive and also because it is not explicitly mentioned in the CSRD for LSMEs.
- BC112. The final decision was to include it for the following reasons: it is linked to the materiality process/identification of impacts, and 'lack of due diligence' is included in other EU legislation (SFDR tab. 3 indicator 10). To simplify this requirement, due diligence is a 'report if you have' component, meaning that the undertaking shall disclose whether it has adopted a due diligence process or not. Unlike Set 1, the ESRS LSME ED does not require to 'provide a mapping that explains how and where its application of the main aspects and steps of the due diligence process are reflected in its sustainability statement'.

**DR 5 (SBM-1) – Strategy, business model and value chain**

- BC113. The EFRAG SRB and EFRAG SR TEG decided to simplify this disclosure requirement for proportionality reasons. In particular, they decided to:
- (a) not include the requirement on 'headcount of employees by geographical areas' (ESRS 2 par. 40 a iii.) because they assess that this information is already covered in Section 5 S1-1. This information by geography has been replaced with the requirement on disclosing the 'main countries of operation of the parent undertaking and of the subsidiaries that are connected with material impacts or risks';
  - (b) not include the requirement on 'breakdown of total revenue' (ESRS 2 SBM-1 par. 40 b);
  - (c) include the requirement on the list of significant ESRS sectors in which the undertaking or its subsidiaries operate or can potentially have a material impact on;
  - (d) not include for proportionality the disclosure requirements set out in ESRS 2 SBM-1 par. 40 (f) and (g);
  - (e) not include disclosure requirements set out in ESRS 2 SBM-1 par. 41 in line with the decision to not include 'breakdown of total revenue'; and
  - (f) not include for proportionality's sake, and considering the LSMEs peculiarities, the additional information required in ESRS 2 SBM-1 par. 42 (c) on the 'description of the main business actors (such as key suppliers, customers, distribution channels and end-users) and their relationship to the undertaking'. Furthermore, the reference to 'multiple value chains' is also not included considering that this case is rare for undertakings in the scope of this Standard.

**DR 6 (SBM-2) – Interests and views of stakeholders**

- BC114. This disclosure requirement was often debated at EFRAG SR TEG and EFRAG SRB meetings, with members having split views. Some members questioned the inclusion of it because it is not explicitly mentioned in the CSRD for LSMEs, while others would like to have the same approach as set out in ESRS 2, considering the role of stakeholders in impact materiality.
- BC115. The final decision was to simplify this requirement as a 'report if you have' component, meaning that the undertaking shall disclose the required information only if it 'engages with stakeholders'. Furthermore, the disclosure requirement has been streamlined and simplified by:
- (a) grouping the data points in ESRS 2 SBM-2 par. 45 a) (i), (ii) and (v). and not including (iii) and iv);

- (b) not including the reference to 'due diligence' in ESRS LSME ED par. 32 (b) because it is not an explicit content for LSMEs in CSRD;
- (c) not including the requirement in ESRS 2 SBM-2 par. 45 (c) related to 'amendments to its strategy and/or business model';
- (d) not including the requirement in ESRS 2 SBM-2 par. 45 (d) related to 'whether and how the administrative, management and supervisory bodies are informed about the views and interests of affected stakeholders'.

**DR 7 (SBM-3) – Material impacts, risks and opportunities and their interaction with strategy and business model**

BC116. This disclosure requirement was discussed several times at EFRAG SR TEG and EFRAG SRB meetings, aiming to simplify it for it to be more proportionate to the capacities and the characteristics of LSMEs. In particular, to achieve this proportionality objective the EFRAG SR TEG and EFRAG SRB decided to:

- (a) group and streamline the requirements in ESRS 2 SBM-3 par. 48 (a) and (c);
- (b) simplify the requirement in ESRS 2 SBM-3 par. 48 (b) of 'current and anticipated effects of material impacts and risks on business model, value chain, strategy and decision-making'. The decision was to only ask the undertaking if it has adjusted or plans to adjust its strategy and/or business model to address a material sustainability matter; in that case, it shall describe the current or planned changes to its strategy or business model(s); and
- (c) not include the requirement in ESRS 2 SBM-3 par. 48 (f) on the resilience of the undertaking's strategy and business model.

BC117. The disclosures requirements related to current and anticipated financial effects were debated several times, with members having split views. Some members questioned whether these requirements would be too burdensome for LSMEs, while others would like to have the same approach as set out in ESRS 2. The final decision was to keep the same approach taken in Set 1.

BC118. Centralising SBM-3 disclosure requirements across E1-E5 and S1-S4 was discussed several times, and the ESRS LSME ED's approach to this matter is to centralise and include the topic specific requirements in ARs, distinguishing the EU Law datapoints (navigation table provided for each sustainability topic) with additional topic specific disclosures that are kept in the ED. The centralisation of these topical ARs pertaining to SBM-3 was retained as final decision as it allows to enhance the understandability of the standard and reduce the complexity of the architecture compared to ESRS Set1.

**Voluntary Disclosure 8 (SBM-4) – Positive impacts and material opportunities**

BC119. This disclosure requirement has been added considering the decision taken on positive impacts and opportunities to be disclosed on a voluntary basis because it is not explicitly mentioned in the CSRD for LSMEs (see Section 1). The aim is to provide guidance for when an undertaking decides to disclose its positive impacts and/or opportunities and to provide a certain degree of standardisation when disclosing this information.

**DR 9 (IR-1) – Processes to identify and assess material impacts and risks**

BC120. This disclosure requirement was discussed several times at EFRAG SR TEG and EFRAG SRB meetings with the aim to be more proportionate to the capacities and the characteristics of LSMEs. In particular, to achieve this proportionality the EFRAG SR TEG and EFRAG SRB decided to:

- (a) not include disclosure requirement in ESRS 2 SBM-3 par. 53 (a) related to methodologies and assumptions and
- (b) simplify the disclosures requirements set out in ESRS 2 SBM-3 par. 53 (b) and (c), phrasing with 'shall' the description of the process to identify, assess and

prioritise impacts and risks and the other specific data points only with ‘may’ as additional information that an undertaking may provide.

BC121. The disclosure requirements across E1-E5 pertaining to IR-1 have been centralised in this section for the same reasons illustrated above for SBM-3.

### Section 3 Policies, Actions and Targets

#### Objective of Section 3

BC122. The objective of this Section is to cover information in relation to policies, actions and targets to prevent, mitigate and remediate actual and potential material negative impacts and to address material risks (collectively, to ‘manage material sustainability matters’) for a material matter, either as this is required by Disclosure Requirements in the topical Sections of this Standard or on an entity-specific basis.

BC123. This Section also covers information about:

- (a) the undertaking’s processes for engaging with own workers, workers in the value chain, affected communities, consumers and end-users and their representatives about impacts; and
- (b) the undertaking’s processes to remediate negative impacts and channels for own workforce, value chain workers, affected communities, consumers and end-users to raise concerns.

The decision to move points (a) and (b) from the topical sections to this central section on policies, actions and targets is in response to the logic of streamlining the overall architecture of the requirements and leave in the topical sections only the metrics. In addition, the treatment for these two requirements is the same as for the rest of this chapter (i.e., ‘report if you have’).

BC124. The following table presents a summary of the main simplifications and amendments discussed and approved at EFRAG SR TEG and EFRAG SRB meetings in relation to LSME Section 3 compared to ESRS 2 and the requirements defined in Topical ESRS:

#### Main simplifications and amendments from ESRS Set 1 to LSME ESRS

ESRS 2 – General Disclosures and disclosures in Topical ESRS related to ESRS 2	ESRS LSME ED Section 3 – Policies, Actions and Targets
MDR <sup>20</sup> -P, MDR-A	Treated as topic agnostic information: The content of MDR-P and MDR-A is kept in the main body of Section 3.
Policies and Actions across E1-E5 and S1-S4	Treated as topic specific information: Topical Set 1 Standard Policies and Actions (E1 to E5 and S1 to S4) are centralised, harmonised and simplified in AR of Section 3.
MDR-T	Treated as topic agnostic information: Reduced the number of minimum disclosure requirements in the main body of Section 3 as ‘Report if you have’ component
Targets across E1-E5 and S1-S4	Treated as topic specific information: Topical Set 1 Standard Targets (E1 to E5 and S1 to S4) are centralised, harmonised and simplified in AR of Section 3 as ‘Report if you have’ component The requirements were either deleted or kept, but as voluntary disclosures (from ‘shall’ in Set 1 to ‘may’ in the ED).
Processes for engaging with own workers, workers in the value chain,	Centralised disclosure in Section 3 under policies and actions

<sup>20</sup> MDR: Minimum Disclosure Requirements.

ESRS 2 – General Disclosures and disclosures in Topical ESRS related to ESRS 2	ESRS LSME ED Section 3 – Policies, Actions and Targets
affected communities, consumers and end-users, and their representatives about impacts	
Processes to remediate negative impacts and channels for own workers, workers in the value chain, affected communities, consumers and end-users to raise concerns	Centralised disclosure in Section 3 under policies and actions

**Policies and Actions**

- BC125. CSRD Art. 19 (a) 6 let. b and c require covering policies and actions. The EFRAG SR TEG and EFRAG SRB discussed the approach to policies and actions in several sessions. In the earlier draft versions of LSME, the EFRAG SR TEG’s orientation was to exclude MDRs from the ED, only keeping topic-specific information in a centralised disclosure. However, to ensure consistency, transparency and standardisation in the disclosure of policies and actions, the relevant minimum disclosure requirements (MDR) have been included in the main body of Section 3.
- BC126. Finally, the general approach to MDR policies and actions that was agreed by the EFRAG SR TEG and EFRAG SRB is the following: the undertaking shall only disclose the policies and actions that it has in place for material matters. It may disclose a timetable when it does not have them. An undertaking reporting under the ESRS LSME ED is not required to declare when a policy or action is not in place (simplification compared to Set 1).
- BC127. SR Board agreed to apply the same definition of policies as in Set 1. As suggested and discussed in sessions of the EFRAG SR TEG and the EWG, according to the scale and complexity of LSMEs the ED also includes the possibility to consider policies that are ‘not formalised’. On this point, an Application Requirement was drafted to offers examples of when policies are not formalised.
- BC128. Centralising Policies and Actions across E1-E5, S1-S4 and G1<sup>21</sup> was discussed several times and, following the EFRAG SRB, EFRAG SR TEG and EWG discussions and recommendations, the ESRS LSME ED approach on this matter has been decided to be the following:
  - (a) location of the disclosures: the undertaking may include such policies and actions in a centralised section or divide it and present the relevant disclosure in each sustainability topical section;
  - (b) the DR considers each specific requirement on policies adopted and actions as indicated in the ESRS Set 1 topical standards, especially those required by SFDR and other EU regulations/directives, according to the ESRS LSME ED decision tree; and
  - (c) harmonisation and structure of the disclosures by distinguishing in the AR the EU Law datapoints (navigation table provided for each sustainability topic) with additional topic-specific policies and actions disclosures that are kept in the ED as a ‘shall’ and other disclosures which are kept as additional guidance (as a ‘may’ or as an explanation).

<sup>21</sup> G1 only includes Policies.

## **Targets**

- BC129. Unlike policies and actions, targets are not an explicit content of the ESRS LSME ED in the CSRD. The approach for targets was heavily debated in the sessions of EFRAG SRB, EFRAG SR TEG and the EWG. Even though the CSRD is not explicit on this matter, a lot of members of the respective groups suggested that target setting is a meaningful element of reporting and that it is strongly interconnected with policies, actions and metrics, thus that it is necessary to include it in the ED. The final decision has been to include the target reporting as a 'report if you have' component. This effectively means that the disclosure requirement applies when the undertaking is monitoring the effectiveness of its actions to address a material sustainability matter through measurable time-oriented targets.
- BC130. Aligned with the approach to policies and actions, a simplified and streamlined version of MDR for targets were included in the main body of Section 3 *Disclosure Requirement 12 (IR-4) – Targets in relation to sustainability Matters*. As a simplification of this MDR, the disclosures of indication of milestones or interim targets, how stakeholders have been involved in target-setting, disclosure of timeframe for setting targets, description of reasons why there are no plans to set targets, as well as description of the defined level of ambition to be achieved and of any qualitative or quantitative indicators used to evaluate progress have been deleted from the ED.
- BC131. Topic-specific policies, actions, and targets across E1-E5 and S1-S4 were also centralised in Section 3 *Disclosure Requirement 12 (IR-4) – Targets in relation to sustainability Matters*, leaving the topical section. The DR is distinguishing in the AR the EU Law datapoint regarding GHG emission reduction targets for Scope 1,2 and 3 (SFDR Table 2 Indicator # 4/Climate Benchmark Regulation), with additional topic specific targets disclosures that are kept in the ED as additional guidance (as a 'may or as an explanation).

## **Processes for engaging and for remediating negative impacts and channels for raising concerns**

- BC132. Respecting the architectural logic of only having topic-agnostic policies, actions and targets in Section 3, the content of 'Processes for engaging with own workers, workers in the value chain, affected communities, consumers and end-users and their representatives about impacts' and 'Processes to remediate negative impacts and channels for own workers, workers in the value chain, affected communities, consumers and end-users to raise concerns' has been moved to the Application Requirements of Policies related to own workforce, value chain workers, affected communities and consumers and end-users. The status of the requirement ('shall' or 'may') has not been changed.
- BC133. The Application Requirements originally proposed for 'Processes for engaging' and 'Processes to remediate negative impacts and channels to raise concerns' have been moved accordingly under the subtitle of 'Guidance' following the same methodological approach taken for policies and actions in AR.
- BC134. This restructuring allows for the achievement a more consistent architecture, using the same approach as for other topical disclosures such as climate transition plan, which is also located in the Application Requirements related to Actions and Targets.

## **Section 4 Environment**

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### **Objective of Section 4**

- BC135. The objective of this Section is to cover metrics regarding climate change, pollution, water and marine resources, biodiversity and ecosystems and resource use and circular economy, mainly taking into account the CSRD provisions and the requirements of related EU legislation and regulation (i.e., EU Climate Law, Regulation (EU) 2019/2088 (SFDR), Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation), and EBA Pillar 3 ESG risk disclosure requirements).

*ESRS LSME ED Basis for conclusions*

BC136. In the following table is reported a summary of the main simplifications and amendments discussed and approved at the EFRAG SR TEG and EFRAG SRB meetings in relation to ESRS LSME ED Section 4 compared to ESRS E1 to E5.

**Main simplifications and amendments from ESRS Set 1 to ESRS LSME ED**

ESRS set 1	ESRS LSME ED Section 4 - Environment
Objective across E1-E5	Streamlined and simplified
ESRS E1 - Climate	
E1-1 – Transition plan	Report if you have component. 'If the undertaking has set transition plan for climate change mitigation' it shall disclose the information required in paragraphs 14 and 16 (a), (e), (f) and (g) in E1 Set 1. The other requirements were deleted
E1-5 – Energy consumption and mix	Simplified, reduced granularity breakdowns
E1-5 – Energy intensity based on net revenue	Same as ESRS Set 1 (SFDR T1, #6), added a sentence regarding proper reconciliations and an additional one-year phase-in
E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions	Simplified, reduced breakdowns and added 'if applicable' principle in EU ETS and market-based methods
E1-6 – GHG intensity based on net revenue	Same as ESRS Set 1 (SFDR T1, #3), added a sentence regarding proper reconciliations and an additional one-year phase-in  Also included a specification for SNCIs on GHG intensity per net revenues
E1-7 – GHG removals and GHG mitigation projects financed through carbon credits	Reduced granularity and simplified in terms of what is being disclosed, added 'if applicable' for this requirement. Deleted contribution to removals in upstream and downstream value chain. Deleted plans to cancel carbon credits in future and methodology on residual emissions near net-zero.
E1-8 – Internal Carbon pricing	Deleted
E1-9 – Anticipated financial effects from material physical and transition risks and potential climate-related opportunities	Simplified (EU datapoints kept)  Merged the significant amounts of net revenue and assets at physical and transition risks in one single datapoint (a) and (b) in Set 1) and simplified the wording on reconciliation (no longer reconciliation but which relevant line items are affected).
ESRS E2 Pollution	
E2-1 – Pollution of air, water and soil	Same as ESRS Set 1 (SFDR T2, #1, #2 and #3, T1, #8), added some Ars that clarify the disclosure of EPRTR regulation
E2-2 – Substances of concern and substances of very high concern	Same as ESRS Set 1
ESRS E3 Water	
E3-1 – Water consumption	Same as ESRS Set 1 (SFDR T2, #6.2 and #6.1)  Also included a specification for SNCIs on water intensity ratios.
ESRS E4 Biodiversity and ecosystems	
E4-1 – Biodiversity transition plan	Deleted
E4-5 – Biodiversity impact metrics	Reduced granularity
E4 -5 – Land use life cycle assessment	The same as ESRS Set 1

ESRS set 1	ESRS LSME ED Section 4 - Environment
E4-5 – Invasive alien species	Discussed exclusion, final decision to keep disclosure
ESRS E5 Resources and circular economy	
E5-5 – Resources inflows	Simplified and reduced granularity accordingly
E5-6 – Resources outflows	Kept the EU Law datapoints (SFDR T2, #13, T1, #9) but simplified and reduced granularity accordingly
General	
Financial effects (E2, E3, E4 and E5)	Financial effects on pollution, water, biodiversity and circular economy were simplified and centralised, i.e., only one DR for all, the undertaking to specify the content for each topic supported by this centralised DR. Financial effects for climate were retained as separate simplified DR due to the number of EU datapoints it contains.

BC137. The centralised objective of Section 4 in the ED was streamlined and simplified in comparison to Set 1 while ensuring that the essence of these environmental objectives is not subverted by these simplifications.

#### **Transition plan**

BC138. For E1-1 Transition plan, this disclosure requirement had been originally kept in Section 4 as it was part of the mandatory requirements of Set 1 (please refer to [draft] ESRS 2 (November 2022)); however, following the decision tree and the EFRAG SR TEG’s suggestions for simplification, only the EU Law datapoints regarding Transition plan is included in the ESRS LSME ED Section 3 *Policies, Actions and Targets* as a ‘Report if you have’ component.

#### **Energy consumption and mix**

BC139. The disclosure requirement concerning energy consumption and mix has been kept but simplified in Section 4, with a reduced granularity of disaggregation in energy consumption related to own operations. It was agreed not to include the disaggregation of total renewable energy consumption (as required in ESRS E1 paragraph 37 (c)). The EFRAG SR TEG members approved this simplification compared to Set 1 (EFRAG SR TEG 13 July 2023).

BC140. Energy intensity based on net revenue on E1-5 was kept following the decision tree. These datapoints concern PAIs of SFDR in Table 1. After receiving feedback on the ED, the two paragraphs of energy intensity were merged for simplification on the ED. For this disclosure it was also decided at the EFRAG SR TEG meetings to add ‘if a proper reconciliation of relevant amounts is not feasible, the undertaking to explain where the relevant amounts can be found in the financial statements.’ It was also agreed to include in this disclosure an additional 1 year phase-in (Section 1 *Appendix C* of ESRS LSME ED as approved by EFRAG SR TEG).

#### **Gross Scopes 1, 2, 3 and Total GHG emissions**

BC141. The disclosure requirement concerning Gross Scopes 1, 2, 3 and Total GHG emissions was simplified: the disaggregation on Scope 1 and 2 on consolidated accounting group and investees was deleted as the ESRS LSME ED only concerns individual reporting. On Scope 1, 2 and Total GHG emissions, the percentage of Scope emissions from regulated emission trading schemes was tailored to the ED by adding ‘if applicable’. It was considered deleting ETS breakdowns from the ESRS LSME ED; however, it was kept as in some sectors this information may be relevant.

## *ESRS LSME ED Basis for conclusions*

- BC142. For GHG intensity based on net revenue, the content remained the same as in Set 1 because it concerns PAIs of SFDR in Table 1. For simplification, the first two paragraphs were merged.
- BC143. The SRB also agreed to including a specification for Small- and Non-Complex Institutions that would provide SNCIs with more flexibility on GHG intensity based on net revenue (SFDR): This specification allows and gives SNCIs the option to replace net revenue with a different financial indicator until a sectoral standard is established (such as the ESRS Financial institutions sector standard). The rationale behind this approach is that financial institutions may need to use different, more specific financial indicators from their relevant financial statements line items to disclose GHG intensity ratios. This additional specification was also agreed to be explicitly asked in the ESRS LSME ED public consultation.

### ***GHG removals and GHG mitigation projects financed through carbon credits***

- BC144. It was discussed on the EFRAG SR TEG meeting on 2 February 2023 to delete point (b) of paragraph 56 in ESRS Set 1 (EC DA July 2023) and to shorten it to one paragraph. The content of the paragraph was also updated based on the EC DA (July 2023). ED requires to disclose GHG removals when specific projects are in place (for more details, see the chapter 'Value chain implications of the ESRS LSME ED'). The paragraph related to the objective of this disclosure requirement was merged and simplified. Paragraph 60 in ESRS Set 1 (EC DA July 2023) was also deleted for proportionality's sake since it is an additional requirement. Additionally, following the EFRAG SR TEG and SRB's written feedback and bilateral exchanges regarding this DR, an 'if applicable' element was added as well as the contribution to upstream and downstream value chain along with plans to cancel carbon credits in the future.
- BC145. Internal carbon pricing was deleted from the ED as it is not in the decision tree.

### ***Anticipated financial effects for Climate***

- BC146. For anticipated financial effects derived from material physical and transition risks and potential climate-related opportunities, it was discussed and decided to keep the disclosure requirement of E1 separate from E2, E3, E4 and E5, which were centralised in a new disclosure requirement. Keeping the disclosure requirements on anticipated financial effects as such ensures simplification of the ESRS LSME ED while covering the dimension of financial materiality. The disclosure requirement on anticipated financial effects in E1 was simplified and reduced in granularity by focusing on the datapoints that are related to EU Law (EBA Pillar 3). The EFRAG SR TEG suggested in written feedback to redraft the sentence related to scenario analysis in the objective of this disclosure requirement ('If the undertaking uses scenario analysis to conduct resilience analysis . . .') to reflect the proportionality principle.
- BC147. Following written SRB suggestions, the SRB agreed to merge the significant amounts of net revenue and assets at physical and transition risks in one single datapoint (a) and (b) in Set 1 and to simplify the wording on reconciliation (no longer 'reconciliation' but rather in terms of which relevant line items are affected).

### ***Pollution***

- BC148. For pollution of air, water and soil, the final decision was to keep the datapoints that are related to EU Law (SFDR Table 1 and 2). A more explanatory AR was also added regarding the EPRTTR and how pollutants should be calculated.
- BC149. SRB feedback also indicated a need for an additional AR (stemming from VSME ED) regarding EPRTTR, one that clarifies the reasons for including EPRTTR and for which undertakings it may concern.

### ***Water consumption***

- BC150. As agreed for GHG intensity ratio in E1-2, SNCIs are provided with more flexibility on water intensity based on net revenue (SFDR): This gives SNCIs the option to replace net revenue with a different financial indicator until a sectoral standard is established (such as the ESRS Financial institutions sector standard).



**Biodiversity**

- BC151. For the biodiversity transition plan (E4-1), it was decided to delete this disclosure for additional simplification in line with EC DA ESRS (phase-in and voluntary E4).
- BC152. On impact metrics of E4-5, invasive alien species were maintained as a disclosure. Concerning the other biodiversity impact metrics of E4-5, it was decided to keep the disclosure related to the Lice Cycle Assessment as this DR is value chain sensitive. The other datapoints that were made voluntary in the EC delegated Acts and that have no impact on value chain were deleted from the ESRS LSME ED.

**Resource inflows and outflows**

- BC153. Regarding E5-5, following the EFRAG SR TEG and SRB's written feedback and the SR TEG meeting on 12 September, E5-5 was simplified by clarifying that only IROs extend to value chain but metrics do not. This has been done by including the text 'in your own operations' in the metric part of resource inflow. Additionally, certain changes were introduced on the metric part of inflows: 1) simplification of language on biological material exposure, with deletion of the application of cascading principle, and 2) simplification of language on use of secondary materials.
- BC154. Regarding outflows and E5-6, the EU Law datapoints were kept in respect of the ESRS LSME ED decision tree; however, a simplification was added to keep metrics but to focus instead on the percentage of products and services designed to be durable and repairable; and on waste, a simplification was introduced on language and the data point on total amount of non-recycled waste was deleted as the percentage on non-recycled in face that the total is also asked. Only the percentage of the total that is non-recycled is asked.

**Financial effects other than climate**

- BC155. The DRs concerning financial effects for E2, E3, E4 and E5 have been simplified and centralised in this section as E6, including the introduction of few Application Requirements stemming from E2-E5.

## Section 5 Social

BC156. Given that section 5 of Social is focussed on the metrics of ESRS S1, the table below and subsequent paragraphs relate to this standard. In set 1, there are no metrics for ESRS S2-S4; hence, these are not included in the ESRS LSME ED.

BC157. In the following table is reported a summary of the main simplifications and amendments discussed and approved at EFRAG SR TEG and SRB meetings in relation to the ESRS LSME ED Section 5 compared to ESRS S1:

### **Main simplifications and amendments from ESRS Set 1 to ESRS LSME ED**

ESRS set 1	ESRS LSME ED Section 5
Objective for S1	Simplified and reduced in granularity
ESRS S1 – Own workforce	
General	Replaced the threshold 50 employees and more than 10% of the total employees with 10% only, dropping the 50 employees component of the threshold.
S1-6 – Characteristics of employees	This is S1-1. Simplified, reduced granularity
S1-7 – Characteristics of non-employees	This is S1-2. Simplified, reduced granularity
S1-8 – Collective bargaining coverage and social dialogue	This is S1-3. Simplified, reduced granularity. Social dialogue deleted
S1-10 – Adequate wages	This is S1-4. Thresholds for disclosing country information included. Deleted 'all' to clarify that it is subject to materiality assessment.
S1-11 – Social protection	This is S1-5. Simplified. Datapoints <i>countries where people do not have social protection</i> and <i>type of employees who do not have social protection</i> made voluntary.
S1-13 – Training and skill development metrics	This is S1-6 (simplified focus 'Training metrics'). Reduced granularity. A phase-in for gender breakdown was introduced in Section 1 ( <i>Appendix C</i> )
S1-14 – Health and Safety metrics	This is S1-7. Only SFDR indicators were kept.
S1-16 – Remuneration metrics (pay gap and total remuneration)	This is S1-8. Simplified by deleting datapoint on contextual information. SFDR indicators kept.
S1-17 – Incidents, complaints and severe human rights impacts	This is S1-9. Reduced granularity and changed reconciliation, focus on incidents and severe human rights impacts. A phase-in was also added ( <i>Appendix C</i> )
S1-9 – Diversity metrics, S1-12 Persons with disabilities	This is S1-10. Diversity indicators and Persons with disabilities are merged. Breakdown by gender for percentage of employees with disabilities deleted.
S1-15 – Work-life balance metrics	This is S1-11. Changed to a voluntary disclosure

BC158. The approach to drafting the metrics on ESRS S1 is aimed at simplifying the metrics and reducing granularity and breakdowns according to the ESRS LSME ED decision tree. In addition, the changes made to the final ESRS set 1 Delegated Act were mirrored in the ED during the Q3 2022.

### **Characteristics of employees**

BC159. This disclosure requirement provides the information to understand the composition of the undertaking's employees by type of contract and geography. This disclosure is also related to ESRS 2 SBM-1 paragraph 40(a)(iii) from Set 1; for the ED, the datapoint from ESRS 2 (i.e., Section 2) was deleted and only kept for Own workforce, which is a simplification per se.

- BC160. With regard to the breakdowns of employees by geographical location, to tailor to the size and characteristics of SMEs, SRB discussed and agreed to replace the threshold of 50 employees and more than 10% of the total employees, such that only the latter component of the threshold was kept. In addition, a provision was included to increase the relevance of such disclosure by adding the option to use main countries when providing such information if the 10% threshold is not applicable.
- BC161. Regarding the datapoint S1-6 *Total number and rate of own employee turnover*, it was agreed to limit the datapoints to rate of turnover and delete the number of employees' disclosure. As further simplification, contextual information and cross-reference information in the financial statements were deleted from the ED. Moreover, S1-6 *Contextual information* was moved to the ARs as a voluntary disclosure.

#### **Characteristics of non-employees**

- BC162. As S1-7 is also based on the reporting areas listed in CSRD Arts. 19(a)(6) and 29(c), the following simplification were made: S1-7 *Contextual information* and provisions on estimates whilst keeping the voluntary disclosure on S1-7 *Type of work performed by non-employees* were deleted. Overall, this disclosure was streamlined to focus on the 'shall' datapoint on number of non-employees.

#### **Collective bargaining coverage**

- BC163. S1-8 is based on the reporting areas listed in CSRD Articles 19(a)(6) and 29(c) and was therefore considered relevant to be included, in particular the coverage of collective bargaining of the undertaking's employees. This is also linked to the ILO Declaration on Fundamental Principles and Rights at Work, which sets out collective bargaining as a fundamental right. Significant simplifications were performed on this disclosure requirement as it does no longer include a social dialogue metric, and the 'shall' and 'may' datapoints on non-employees have been deleted from this Disclosure Requirement. In addition, further simplifications were performed on granularity at country level and the datapoints from set 1 on ESRS S1 paragraph 60(b) and (c) have been deleted. Accordingly, this disclosure has been renamed 'Collective bargaining coverage', which differs from Set 1 where it is called 'Collective bargaining coverage and social dialogue'.

#### **Adequate wages**

- BC164. S1-10 *Adequate wages* were streamlined by introducing a threshold for the countries that shall be reported and, therefore, by reducing the granularity and focusing the disclosure on those countries that represent at least 10% of the undertaking's employees. SRB also decided to delete 'all' (i.e., 'If not all its employees are paid an adequate wage in line with applicable benchmarks . . .') in efforts to be more proportionate and practicable with LSME reporting. If the 10% threshold is not applicable, LSMEs may report based on their main countries. Based on a decision by the SRB, the voluntary datapoints on non-employees were also retained. It is listed as one of the social matters in the CSRD Articles 19(a)(6) and 29(c) and is furthermore in line with the Adequate Minimum Wage Directive, which requires Member States to define a national adequate wage benchmark. The European Pillar of Social Rights addresses the right to fair wages and ensures adequate minimum wages in Principle 6.

#### **Social protection**

- BC165. S1-11 *Social protection*, which is based on the reporting areas listed in the CSRD Articles 19(a)(6) and 29(c), was reduced in granularity. Specifically, the datapoints S1-11 *Countries where employees do not have social protection* and S1-11 *Type of employees who do not have social protection* were considered less relevant for LSMEs and were thus made voluntary, as discussed by the EFRAG SR TEG on 12 September 2023.
- BC166. SRB also agreed on 13 December 2023 to delete 'all' (as in adequate wages) and to limit the disclosure to main countries without social protection.

### **Training metrics**

- BC167. S1-13 is based on the reporting areas listed in CSRD Articles 19(a)(6) and 29(c) as well as the European Pillar of Social Rights Principle 1, which addresses the right to education, training and life-long learning. This Disclosure Requirement was reduced in granularity by deleting S1-13 *Percentage of employees participating in regular performance development reviews*, while data on training hours was kept as the only 'shall' disclosure for this sub-subtopic. For the sake of further simplification, the voluntary datapoints S1-13 *Average number of training hours (breakdown by employee category)* and S1-13 *Information on non-employees* were also deleted. Accordingly, the metrics have been renamed 'Training metrics', which differs from Set 1 where they are called 'Training and development' metrics.
- BC168. Additionally, the EFRAG SR TEG decided on 18 September 2023 to introduce a phase-in for the breakdown by gender in Section 1, *Appendix C*.

### **Health and safety metrics**

- BC169. For S1-14 *Health and Safety* metrics, the disclosures were reduced to requirements by the SFDR according to the ESRS LSME ED's decision tree. These are indicator #2 in Table III 'Rate of accidents' and indicator #3 in Table III 'Number of days lost to injuries, accidents, fatalities or illness'. Therefore, significant streamlining was performed and the following datapoints were deleted: S1-14 *Percentage of people in its own workforce who are covered by the undertaking's health and safety management system*, S1-14 *Number of cases of recordable work-related ill health, subject to legal restrictions on the collection of data*, S1-14 *Information on the number of fatalities as a result of work-related injuries and work-related ill health for other workers working on the undertaking's sites*, and the voluntary datapoint S1-14 *Additional information*.
- BC170. The proposal was to keep this Disclosure Requirement focussed on the SFDR PAI datapoints and not to propose the additional datapoints from Set 1 as voluntary datapoints.

### **Remuneration metrics (pay gap and total remuneration)**

- BC171. The decision tree was followed and the metrics that emanate from other EU regulation were included. This is the case of S1-16 *Remuneration metrics* SFDR (mandatory) indicator #12 Table I 'Unadjusted Gender Pay Gap', indicator #8 Table III 'Excessive CEO Ratio' and 'Weighted average gender pay gap' in the Benchmark Regulation Section 1 and 2 of Annex 2. It was agreed by the EFRAG SR TEG on 18 September 2023 to retain these datapoints. The disclosure of contextual information was deleted.

### **Incidents and severe human rights impacts**

- BC172. Regarding S1-17 *Incidents, complaints and severe human rights impacts*, an additional sentence was included on the connectivity datapoint to provide flexibility for those cases where a reconciliation with the financial statements is not feasible. A further simplification was performed on the datapoint that arises from ESRS S1 paragraph 103(b) in relation to complaints filed within the undertaking or the National Contact Points on the sub-subtopics covered by S1 but not in the SFDR PAIs included below; this datapoint was deleted in full.
- BC173. The core content of the SFDR PAIs was not streamlined as per the approach on ESRS LSME ED; these are the datapoints on indicator #7 in Table III SFDR 'Incidents of discrimination', (mandatory) indicator #10 in Table I and indicator #14 in Table III 'Violations of UNGC principles and OECD Guidelines for Multinational Enterprises', 'Number of identified cases of severe human rights issues and incidents'; and 'Number of benchmark constituents subject to social violations (absolute number and relative divided by all benchmark constituents), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law' set out in section 1 and 2 of Annex II of the Benchmark Regulation. S1-17 *Number of complaints filed for social and human rights matters besides discrimination* as well as S1-17 *Contextual information* were deleted. Furthermore, a phase-in was introduced in Section 1, *Appendix C* for the reconciliation of monetary amounts as discussed by the EFRAG SR TEG on 18 September 2023.

**Diversity metrics and persons with disabilities**

- BC174. S1-9 is based on the reporting areas listed in CSRD Articles 19(a)(6) and 29(c). S1-9 *Diversity metrics* and S1-12 *Persons with disabilities* disclosure requirements were merged following the proposal of the EFRAG SR TEG in Q2 2023 to streamline the diversity-related disclosures. Following the EFRAG SR TEG's suggestions in written feedback, S1-9 *Distribution of employees by age* was moved to ARs as a voluntary disclosure.
- BC175. S1-12 *Persons with Disabilities* is based on the reporting areas listed in CSRD Articles 19(a)(6) and 29(c) and reflects the rights set out in the UN Convention on the Rights of Persons with Disabilities as well as Principle 17 of the European Pillar of Social Rights ('Inclusion of people with disabilities'). S1-12 was simplified, including the deletion of the voluntary disclosure of the gender breakdown.

**Work-life balance metrics**

- BC176. S1-15 *Work-life balance metrics*, which is based on the reporting areas listed in CSRD Articles 19(a)(6) and 29(c), was changed to a voluntary disclosure in the ED: focus was given to the sub-subtopics related to the fundamental ILO conventions and other EU legislation datapoints. This sub-subtopic is covered qualitatively with the policies, actions and targets.

## Section 6 Business Conduct

### **Main simplifications and amendments from ESRS Set 1 to ESRS LSME ED**

ESRS set 1	ESRS LSME ED Section 6
ESRS G1 – Business conduct	<p>G1-2 and G1-6 in ESRS G1 has been simplified and merged into G1-1 of the ED.</p> <p>G1-3 and G1-4 in ESRS G1 has been simplified and merged into G1-2 of the ED.</p> <p>Added 'if any' on specific DRs regarding anti-corruption and anti-bribery and political influence and lobbying activities</p>

BC177. The Exposure Draft for Section 6 has been defined according to the ESRS LSME ED decision tree, including only DRs that are defined in SFDR PAIs, Benchmark Regulation or CSRD Art. 29 b(2) provisions. DRs has been included for 'lobbying activities' (G1-3) and 'payment practices' (G1-1).

## **Appendix A: List of public meetings – EFRAG SR TEG and EFRAG SRB**

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- The discussion of EFRAG [SR TEG 5 December 2022](#) on SMEs standards and approaches
- The discussion of EFRAG [SRB 14 December 2022](#) on SMEs standards.
- The discussion of EFRAG [SR TEG 17 January 2023](#) on the LSME approach and decision tree.
- The discussion of EFRAG [SR TEG 25 January 2023](#) on the LSME approach and decision tree (continuation of 17 January).
- The discussion of EFRAG [SR TEG 30 January 2023](#) on the LSME approach (continuation of 17 January).
- The discussion of EFRAG [SR TEG 02 February 2023](#) on LSME Section 1 “General requirements and Section 2 “General Disclosures”.
- The discussion of EFRAG [SRB 07 February 2023](#) on LSME.
- The discussion of EFRAG [SR TEG 21 February 2023](#) on the working papers of the LSME ESRS.
- The discussion of EFRAG [SRB 08 March 2023](#) on the draft LSME ESRS V1.
- The discussion of EFRAG [SR TEG 13 March 2023](#) on the draft LMSE ESRS V2.
- The discussion of EFRAG [SRB 22 March 2023](#) on the draft LSME ESRS V2.
- The discussion of EFRAG [SR TEG 3 April 2023](#) on the draft LSME ESRS V2.1
- The discussion of EFRAG [SR TEG 19 June 2023](#) on draft LSME ESRS V2.3.
- The discussion of EFRAG [SRB 28 June 2023](#) on draft LSME ESRS V2.3.
- The discussion of EFRAG [SR TEG 13 July 2023](#) on draft LSME ESRS V3.
- The discussion of EFRAG [SR TEG 12 September 2023](#) on draft LSME ESRS and Feedback from comments on the internal consultation
- The discussion of EFRAG [SRB 13 September 2023](#) on draft LSME ESRS and Feedback from comments on the internal consultation
- The discussion of EFRAG [SR TEG 18 September 2023](#) on draft LSME ESRS and Feedback from comments on the internal consultation
- The discussion of EFRAG [SR TEG 17 October 2023](#) on the approval of EFRAG SR TEG of ESRS LSME ED
- The discussion of EFRAG [SRB 24 October 2023](#) on ESRS LSME ED after EFRAG SR TEG approval
- The discussion of EFRAG [SRB 29 November 2023](#) on ESRS LSME ED after EFRAG SR TEG approval
- The discussion of EFRAG [SRB 13 December 2023](#) on ESRS LSME ED after EFRAG SR TEG approval
- The discussion of EFRAG [SRB 15 December 2023](#) on ESRS LSME ED after EFRAG SR TEG approval

## **Appendix B: List of internal meetings and drafting sessions – EFRAG SR TEG and EFRAG SRB**

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- EFRAG SR TEG (19 January 2023): discussion on VSME, approach taken by ex PTF Cluster 8 and the C8 proposal on voluntary standard for SMEs.
- EFRAG SRB meeting (27 January 2023) on approach to LSME and VSME as two separate standards.
- EFRAG SR TEG (2 February 2023): breakout sessions for drafting on LSME topical sections.
- EFRAG SR TEG (24 April 2023): drafting session to discuss written feedback of EFRAG SR TEG on LSME.
- EFRAG SR TEG (12 May 2023): approval of new proposals on LSME Section 1 and 2 and discussion of EFRAG SR TEG feedback in Section 3
- EFRAG SR TEG (21 June 2023): Continued discussion on LSME ESRS V2.3, building blocks and basis for conclusion.
- EFRAG SRB meeting (22 September 2023) on key directions that emerged from the EFRAG SR TEG meetings on LSME and VSME.



## **Appendix C: Other meetings**

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- 1<sup>st</sup> EWG meeting (19 December 2022): SMEs workstream and building blocks approach, LSME and VSME approach and prioritisation of work.
- 2<sup>nd</sup> EWG meeting (19 January 2023): LSME and VSME.
- 1<sup>st</sup> LSME Community workshop (27 January 2023): presentation of the outcome of the questionnaire sent to the LSME community members and additional questions regarding LSME.
- 3<sup>rd</sup> EWG meeting (9 February 2023): discussion on LSME and VSME Communities questionnaires and LSME working papers.
- 4<sup>th</sup> EWG meeting (8 March 2023): Discussion on VSME Community feedback and LSME working papers.
- 5<sup>th</sup> EWG meeting (5 May 2023): debrief EWG on LSME progress.
- European Issuers Smaller issuers committee (9 May 2023).
- 2<sup>nd</sup> LSME Community workshop (26 June 2023): Building blocks, VSME and LSME ESRS.

## Appendix D: Estimated reduction of datapoints in ESRS LSME D

This appendix presents an estimation prepared by the EFRAG Secretariat of the reductions of datapoints in ESRS LSME ED compared to ESRS for large undertakings.

The starting point to identify the reduction of datapoints in LSME has been the List of ESRS Data Points – Implementation Guidance (IG3 issued by EFRAG for public feedback in December 2023). The key steps taken were:

- (a) Identify if the datapoint is kept or deleted in LSME;
- (b) Track if it is turned into a voluntary one (from “shall” in set 1 to “may” in LSME); and
- (c) Aggregate the ones that are voluntary, the ones that are provided “if applicable”, the ones with a “report if you have” approach.

From the aggregation of the simplifications above, secretariat estimates 47% reduction in LSME “shall” datapoint if we consider the simplification of “report if you have” and “if applicable” components compared to Set 1:

	SHALL	MAY			REPORT IF YOU HAVE / IF APPLICABLE
		From “Shall” to “May”	MAY in Set 1	Total	
Set 1*	823	-	279	279	-
LSME	466	81	110	191	32
Reduction “nr.”	-357	-	-147	-66	-
Reduction “%”	<b>-43%</b>	-	<b>-57%</b>	<b>-26%</b>	<b>-47%</b>

\* based on [Draft] EFRAG IG 3: List of ESRS datapoints

## **Appendix E: EU datapoints covered in ESRS LSME ED compared to VSME**

This table summarizes the EU datapoints covered in ESRS LSME ED but not included in VSME ED. They are needed in LSME due to the fact that they derive from other EU regulations and the incorporation of such datapoints is a provision in the CSRD regarding LSME. This analysis has a different scope than the analysis on the trickle-down effect (value chain focus, see chapter *Value chain implications of the ESRS LSME ED* at the beginning of this document) that may derive from disclosures in LSME not covered by VSME. Some of the disclosures in this table pertain to value chain (and are included in the analysis of the trickle-down effect) but others are not.

ESRS LSME ED Basis for conclusions

Disclosure requirement and related datapoint	SFDR <sup>22</sup> reference	Pillar 3 <sup>23</sup> reference	Benchmark regulation <sup>24</sup> reference	EU climate law <sup>25</sup> reference
Section 2 GOV-1 Percentage of board members who are independent paragraph 19 (a)			Delegated Regulation (EU) 2020/1816, Annex II	
Section 2 GOV-2 Statement on due diligence paragraph 23	Indicator number 10 Table #3 of Annex 1			
Section 3 AR 6 ID 20 Undertakings excluded from Paris-aligned Benchmarks		Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 1: Banking book-Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity	Delegated Regulation (EU) 2020/1818, Article 12.1 (d) to (g), and Article 12.2	
Section 4 E1-1 Disaggregated and separated non-renewable energy production	Indicator number 5 Table #1 of Annex 1			

<sup>22</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosures Regulation) (OJ L 317, 9.12.2019, p. 1).

<sup>23</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Capital Requirements Regulation "CRR") (OJ L 176, 27.6.2013, p. 1).

<sup>24</sup> Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171, 29.6.2016, p. 1).

<sup>25</sup> Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (OJ L 243, 9.7.2021, p. 1).

Disclosure requirement and related datapoint	SFDR <sup>22</sup> reference	Pillar 3 <sup>23</sup> reference	Benchmark regulation <sup>24</sup> reference	EU climate law <sup>25</sup> reference
renewable energy production in MWh paragraph 8 d)				
Section 4 E1-1 Energy intensity associated with activities in high climate impact sectors paragraphs 9 to 11	Indicator number 6 Table #1 of Annex 1			
Section 4 E1-2 Gross Scope 1, 2, 3 and Total GHG emissions paragraph 21 to 23	Indicators number 3 Table #1 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 3: Banking book – Climate change transition risk: alignment metrics	Delegated Regulation (EU) 2020/1818, Article 8(1)	
Section 4 E1-3 GHG removals and carbon credits paragraph 28 (b)				Regulation (EU) 2021/1119, Article 2(1)
Section 4 E1-4 Breakdown of the carrying value of its real estate assets by energy-efficiency classes paragraph 32 (c).		Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Paragraph 34; Template 2: Banking book		

Disclosure requirement and related datapoint	SFDR <sup>22</sup> reference	Pillar 3 <sup>23</sup> reference	Benchmark regulation <sup>24</sup> reference	EU climate law <sup>25</sup> reference
		-Climate change transition risk: Loans collateralised by immovable property  -Energy efficiency of the collateral		
Section 4 E1-4 Degree of exposure of the portfolio to climate-related opportunities paragraph 35			Delegated Regulation (EU) 2020/1818, Annex II	
Section 3 AR 6 ID 3 Water and marine resources	Indicator number 7 Table #2 of Annex 1			
Section 3 AR 6 ID 4 Water and marine resources	Indicator number 8 Table 2 of Annex 1			
Section 3 AR 6 ID 8 Sustainable oceans and seas	Indicator number 12 Table #2 of Annex 1			
Section 4 E3-1 Total water recycled and reused paragraph 46 (c).	Indicator number 6.2 Table #2 of Annex 1			
Section 4 E3-1 Total water consumption in m3 per net revenue on own operations paragraph 47	Indicator number 6.1 Table #2 of Annex 1			
Section 2 AR 14 ID 2 negative impacts with	Indicator number 10			

<b>Disclosure requirement and related datapoint</b>	<b>SFDR<sup>22</sup> reference</b>	<b>Pillar 3<sup>23</sup> reference</b>	<b>Benchmark regulation<sup>24</sup> reference</b>	<b>EU climate law<sup>25</sup> reference</b>
regards to land degradation, desertification or soil sealing	Table #2 of Annex 1			
Section 2 AR 14 ID 3 operations affecting threatened species	Indicator number 14.1 Table #2 of Annex 1			
Section 3 AR 6 ID 5 Sustainable land / agriculture practices or policies	Indicator number 11 Table #2 of Annex 1			
Section 3 AR 6 ID 8 Sustainable oceans/ seas practices or policies	Indicator number 12 Table #2 of Annex 1			
Section 3 AR 6 ID 7 Policies to address deforestation	Indicator number 15 Table #2 of Annex 1			
Section 4 E5-2 Non-recycled waste paragraph 64	Indicator number 13 Table #2 of Annex 1			
Section 2 AR 14 ID 4 Risk of incidents of forced labour	Indicator number 13 Table #3 of Annex I			
Section 2 AR 14 ID 5 Risk of incidents of child labour	Indicator number 12 Table #3 of Annex I			
Section 3 AR 6 ID 16 Human rights policy commitments	Indicator number 9 Table #3			

Disclosure requirement and related datapoint	SFDR <sup>22</sup> reference	Pillar 3 <sup>23</sup> reference	Benchmark regulation <sup>24</sup> reference	EU climate law <sup>25</sup> reference
Section 3 AR 6 ID 15 Processes and measures for preventing trafficking in human beings	Indicator number 11 Table #3 of Annex I			
Section 3 AR 6 ID 10 Workplace accident prevention policy or management system	Indicator number 1 Table #3 of Annex I			
Section 3 AR 6 ID 9 grievance/complaints handling mechanisms	Indicator number 5 Table #3 of Annex I			
Section 5 S1-7 Number of days lost to injuries, accidents, fatalities or illness paragraph 37 (b)	Indicator number 3 Table #3 of Annex I			
Section 5 S1-8 Excessive CEO pay ratio paragraph 41 (b)	Indicator number 8 Table #3 of Annex I			
Section 5 S1-9 Incidents of discrimination Paragraph 47 (a)	Indicator number 7 Table #3 of Annex I			
Section 2 AR 14 ID 5 Significant risk of child labour or forced labour in the value chain	Indicators number 12 and n. 13 Table #3 of Annex I			
Section 3 AR 6 ID 1 and 16 Human rights policy commitments	Indicator number 9 Table #3 and Indicator n. 11 Table #1 of Annex 1			



Disclosure requirement and related datapoint	SFDR <sup>22</sup> reference	Pillar 3 <sup>23</sup> reference	Benchmark regulation <sup>24</sup> reference	EU climate law <sup>25</sup> reference
Section 3 AR 6 ID 14 and ID 15 Policies related to value chain workers	Indicator number 11 and n. 4 Table #3 of Annex 1			
Section 3 AR 6 ID 2 Non-respect of UNGPs on Business and Human Rights principles and OECD guidelines	Indicator number 10 Table #1 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818, Art 12(1)	
Section 3 AR 6 ID 12 Due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8			Delegated Regulation (EU) 2020/1816, Annex II	
Section 3 AR 6 ID 13 Human rights issues and incidents connected to its upstream and downstream value chain	Indicator number 14 Table #3 of Annex 1			
Section 3 AR 6 ID 1 and ID 16 Human rights policy commitments	Indicator number 9 Table #3 of Annex 1 and Indicator number 11 Table #1 of Annex 1			
Section 3 AR 6 ID 2 Non-respect of UNGPs on Business and Human Rights, ILO	Indicator number 10 Table #1 Annex 1		Delegated Regulation (EU) 2020/1816,	

<b>Disclosure requirement and related datapoint</b>	<b>SFDR<sup>22</sup> reference</b>	<b>Pillar 3<sup>23</sup> reference</b>	<b>Benchmark regulation<sup>24</sup> reference</b>	<b>EU climate law<sup>25</sup> reference</b>
principles or and OECD guidelines			Annex II Delegated Regulation (EU) 2020/1818, Art 12(1)	
Section 3 AR 6 ID 13 Human rights issues and incidents	Indicator number 14 Table #3 of Annex 1			
Section 3 AR 6 ID 1 and ID 16 Policies related to consumers and end-users	Indicator number 9 Table #3 and Indicator number 11 Table #1 of Annex 1			
Section 3 AR 6 ID 2 Non-respect of UNGPs on Business and Human Rights and OECD guidelines	Indicator number 10 Table #1 of Annex 1			
Section 3 AR 6 ID 13 Human rights issues and incidents	Indicator number 14 Table #3 of Annex 1			
Section 3 AR 6 ID 18 United Nations Convention against corruption	Indicator number 15 Table #3 of Annex 1			
Section 3 AR 6 ID 17 Protection of whistle-blowers	Indicator number 6 Table #3 of Annex 1			
Section 6 G1-2 Standards of anti-corruption and anti-bribery	Indicator number 16 Table #3 of Annex 1			

*ESRS LSME ED Basis for conclusions*

<b>Disclosure requirement and related datapoint</b>	<b>SFDR<sup>22</sup> reference</b>	<b>Pillar 3<sup>23</sup> reference</b>	<b>Benchmark regulation<sup>24</sup> reference</b>	<b>EU climate law<sup>25</sup> reference</b>
Paragraph 10 (a)				



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