Unapproved list of comments
EFRAG SR TEG 21 February 2023

The following is a summary prepared by EFRAG Secretariat of the main points discussed in the meeting on LSME, with the purpose of informing the EFRAG SRB. The list of comments below has not been approved by EFRAG SR TEG.

General

- Some EFRAG SR TEG members asked questions on the interpretation of the CSRD, regarding due diligence (art 19.8, paragraph 6) for the LSMEs and the value chain cap.
- For the value chain cap it was clarified that eliminating content from the LSMEs standards is equivalent to limiting the scope of reporting of large undertakings to own operations.
- DG FISMA clarified the aim of LSME ESRS is connected to the specific information that the investment community needs in terms of investors' protection, risk management, etc. The CSRD balances investors needs with proportionality that is introduced in LSME ESRS.
- The assumption is being made that when the content is included, voluntarily or not, this would not create impediment to the cap.
- With the purpose of implementing the proportionality principle, for the data points stemming from EU regulation (always to be reported for large undertakings) the EFRAG Secretariat is proposed to apply materiality assessment. This is proposed under that assumption that having the datapoints in the LSME standard would not create issues with the value chain cap, despite being subject to materiality assessment and now always mandatory.
- The voluntary content is proposed for the positive impacts, targets and opportunities, which are three elements that are not explicitly mentioned by the CSDR when the content for the LSMEs.
- It was also confirmed that the inclusion of the value chain for LSMEs. was possible (and needed), although this is not explicit content in art. 19a(6). This is justified by it being an intrinsic element of the impact materiality in the CSDR itself, in the ESRS 1 and in alignment with GRI.

<u>Sections - v1 LSME ESRS</u>

- For section 1, General Principles. The simplified definition of policies was agreed. For targets as voluntary, it was confirmed that this was compatible with the value chain cap, as per the assumption explained above.
- For section II, General Disclosures it was confirmed that the due diligence statement remains in Section 2 (Gov 4).
- For section III, environmental disclosures, it was discussed that the definition of climate transition plan should not be touched but it shall be moved to Section II by clarifying that the disclosure only applies if the undertaking has a transition plan. The same would apply to Biodiversity transition plan. It was agreed to re-introduce financial effects across E2-E5 and centralise them in Section II (IFRS and financial materiality).
- For section IV, social disclosures, for the due diligence related DRs (DR2 and 3 across S1-S4), it was agreed to simplify by centralizing them. For the three S1 DRs on collective bargaining, adequate wages and social protection the breakdown between employees and non-employees was discussed. There were different views on complexity/data collection (beyond undertaking's boundaries). It was suggested that the social team checks the auditability. The secretariat will test the complexity of DRs with preparers in the LSME community.