

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

### **Key discussion points for the session**

- 1 During the session EFRAG Secretariat will present the working papers of the draft LSME ESRS section I “General requirements” and section II” General Disclosure”.
- 2 The aim is to progress on key aspects before finalizing the drafting of v1. The working paper has been developed as a markup from ESRS 1 and ESRS 2 (November 2022).

### **Background**

- 3 The working paper on [draft] LSME ESRS was developed on the basis of the decision tree presented to the TEG meetings held on December 5 and December 12, 2022 and 25 January 2023 (see agenda [paper 05-01](#) and [annex](#) SR TEG meeting 25 January 2023)
- 4 The working paper on [draft] LSME ESRS is based on discussion papers for the methodological approach to LSME ESRS that included the following topics. (see working paper prepared for the Jan 17, 2023, TEG meeting):
  - Incorporation by reference to other Set 1 standards
  - Undue Cost
  - Opportunities and Targets
  - Definition of impacts (and exclusion of positive impacts)
  - Qualitative characteristics of information
  - Approach to the value chain
  - Approach to materiality – a) Indicators stemming from EU regulation (incl. SFDR)
  - Approach to materiality –b) Alignment with approach in Set 1
  - List of DRs
- 5 Some of those questions were discussed during the TEG meetings held on Jan 17 and Jan 25, 2023, other questions will be discussed on 30 January. Due to the time-mismatch not all elements of the discussions could be incorporated in the working paper on the [draft ] LSME ESRS.
- 6 The same methodological questions were also discussed by the EFRAG EWG on SMEs on 19 January. EFRAG SR TEG received a debriefing on 25 January.
- 7 A questionnaire with methodological question was sent to the new LSME community that held a workshop on 27 January. Due to the time mismatch the LSME community feedback could only partially advise the working paper for the [draft] LSME ESRS.

- 8 To reflect the principle of proportionality, the following key simplifications have been implemented in this document (on the basis of the SR TEG discussions/ approach presented by the EFRAG Secretariat at those meetings):
- 9 The text of SET 1 standards has been integrally considered and amended where appropriate, so that the [draft] LSME ESES will be a standalone document.
- 10 EFRAG will consult on the applicability of each sector specific ESRS to LSMEs, as part of the consultation on that ESRS. A question on the general approach to sector standards in LSME will also be included in LSME Exposure Draft. Pending the definition of such an approach, in this draft the references to sector-specific ESRS has been eliminated.
- 11 The reporting covers material impacts and risks. Opportunities are voluntary.
- 12 Impacts only cover negative impacts. Positive impacts are not covered.
- 13 The approach to entity-specific disclosure is unchanged from Set 1 ('shall').
- 14 Reporting areas do not include targets. Targets are included as a voluntary ('may') disclosure.
- 15 ESRS 2 Disclosure Contents (CC-P, DC-A and DC-T) have been eliminated. They are mentioned (via a cross-reference to draft ESRS 2 as a source of guidance to be applied on a voluntary basis).
- 16 Due diligence: as part of its disclosure on policies and actions (limited to matters that are assessed to be material), the undertaking would be required to disclose whether and to what extent it has implemented sustainability due diligence processes as defined in the relevant OECD, UNGP and ILO instruments. No specific chapter on Due Diligence.
- 17 A limited list of items is proposed to be outside the materiality assessment: General Disclosures (equivalent to ESRS 2) and ESRS E1 Climate.
- 18 Pending a conclusion in EFRG SR TEG, no specific simplifications have been implemented in the text for Value Chain (Chapter 5).

**The EFRAG Secretariat seeks in particular views on:**

- 19 How to further simplify the parts highlighted in grey;
- 20 Whether the disclosure on policies, actions should be maintained in the Sessions dedicated to each and every topic, or should be centralised as proposed in this draft. If centralised, the EFRAG Secretariat seeks advice on how to further simplify the text;
- 21 Additional possible simplifications.