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## Building blocks (revised version) – after SR TEG meeting 19 June 2023

### Issues Paper

#### Objective

1. The objective of this paper is to i) provide SRB with an update of the building blocks approach and check if it is properly reflected in the drafting of LSME ESRS and ii) validate/discuss additional simplification to build the common minimum content module (i.e. VSME).

#### Information for EFRAG SR TEG/SRB

2. Based on the presentation at EFRAG SRB meeting on 27 January and at SR TEG on 19 June, the proposed building block system conceptually consists of three modules: i) the ESRS for large undertaking (top level); ii) the LSME ESRS (middle level), iii) the VSME, voluntary standard for non-listed SMEs and micro (entry level). The VSME (entry level) would represent the common block to all three levels. The LSME's additional component would consist of adds-on required by CSRD for LSME (EU datapoints or art 19a6 CSRD). The building blocks materialises as simplification of ESRS large undertakings. It also considers the preliminary proposals on a possible VSME by former EFRAG PTF (cluster 8)<sup>1</sup>. Graphically, the column to the far-right includes the relevant references to ESRS set1 (new EC Delegated Act). The columns in the middle refer to the content of the LSME with

<sup>1</sup> See Issue Paper 03-01 SR TEG 17 November, Appendix 1 [Download \(efrag.org\)](https://www.efrag.org).

*Building blocks (revised version) – Issues Paper*

simplification in comparison with Set 1. Finally, the far-left column refers to the equivalent content , i.e. common minimum content in the VSME, tailored to the micro-enterprises' needs and capabilities<sup>2</sup>. More details on the LSME are in the agenda paper 03-02, more details on the VSME are in the Annex 1 of this agenda paper.

3. To note that LSME ESRS is the document that defines which information large undertakings are expected to collect from their counterparties in the supply chain (so called “value chain cap”, CSRD recital 53). VSME does not have a legal role in defining the so called “value chain cap”.
4. EFRAG Secretariat revised the building blocks content regarding Policies and Actions (IR-3 par. 54) to reflect the changes that the Delegated Act made on the materiality assessment regime.

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<sup>2</sup> Ex EFRAG PTF cluster 8 has clarified during the SR TEG public session of 17 November 2022 and the SR TEG Q&A session on 19 January 2023 that their proposal for a draft VSME aimed at micro-enterprises. The newly established EFRAG VSME (non-listed SMEs) community also confirmed the need for a minimum content tool for micro-enterprises. See Appendix 1.

*Building blocks (revised version) – Issues Paper*

Common building block (VSME) -> Steps 1(narrative) + 2 (metrics)	VSME optional component (to meet the expectation of the financial market participants)	LSME additional component	LSME “report if you have” <sup>3</sup> additional component	LSME optional component	Reference to EC DA ESRS Set 1 (version June 2023)
BP 1 (simplified)		BP 1 (additional to VSME)			ESRS 1 - BP1
BP 2 (simplified)		BP 2 (additional to VSME)			ESRS 1 - BP2
GOV 1 (simplified)		GOV 1 (additional to VSME)	GOV 2 sustainability due diligence (simplified)		ESRS 2 – GOV 1
SBM 1 (simplified)	EU law module	EU law module (SFDR, BR, TR, Pillar 3)	SBM 2 – Views and interests of stakeholders		ESRS 2 – SBM 1 ESRS 2 – SBM 2
Materiality matrix (list of matters identified as material)		SBM 3 (simplified)		Material opportunities  Positive material impacts	ESRS 1 – Appendix B AR 16 (list of sustainability matters) ESRS 2 – SBM 3
		IR 1 and 2 centralised			ESRS 2 – IRO 1 and IRO 2
		IR 5 and 6 Process to engage and to remediate (centralised)			S1-2 and S1-3 S2-2 and S2-3 S3-2 and S3-3 S4-2 and S4-3
<b>Metrics:</b> Strategy/Targets/Progresses on	EU law module	Centralised Policies and Actions - EU law	Centralised Targets - EU law module		ESRS 2 (MDR-P and MDR-A), MDR -T

<sup>3</sup> Differently from Set 1, in this case when an undertaking does not have a target/ does not engage with stakeholders / has not implemented DD processes, is not required to disclose this fact (except for SFDR 'lack of due diligence datapoint).

*Building blocks (revised version) – Issues Paper*

Common building block (VSME) -> Steps 1(narrative) + 2 (metrics)	VSME optional component (to meet the expectation of the financial market participants)	LSME additional component	LSME “report if you have” <sup>3</sup> additional component	LSME optional component	Reference to EC DA ESRS Set 1 (version June 2023)
material sustainability matters (Cluster 8 - inspired)		module (SFDR, BR, TR, Pillar 3)	(SFDR, BR, TR, Pillar 3)		Policies and actions from topical standards
Cluster 8 – inspired metrics (but using Set 1 language – no additional datapoints)	EU law module	EU law module + Value Chain Cap			Metrics from topical standards

*Building blocks (revised version) – Issues Paper*

The four columns below are a translation in terms of text of the building blocks approach described above. This does not include the metrics.

In particular,

- Column [draft] LSME:
  - i. With strikethrough “deleted contents” compared to Set 1 version June 2023
  - ii. Additional changes to Set 1 are in *italic*
  - iii. Text highlighted in grey represents the changes due to new EC Delegated Act ESRS set 1 (June 2023)
- Column [draft] VSME:
  - i. With strikethrough “deleted contents” compared to LSME
  - ii. With strikethrough (highlighted in light blue) “deleted contents” compared to Cluster 8 proposal
  - iii. Additional changes to LSME are in *italic*

For all the columns, text in yellow represents pending or decisions points.

EFRAG Secretariat revised the contents included in the building blocks (see table below), according to the feedback received during the SR TEG meeting held on 19 June. All the following changes, made after the SR TEG meeting, are highlighted in purple:

- a) [draft] LSME - BP1, par. 6b): added an explanation that subsidiaries are to be treated as value chain, based on materiality;
- b) [draft] LSME – BP1 par. 10 – Time horizons: as in Set 1, it has been kept the possibility to deviate from the definition of medium- or long-term time horizons and the DR to disclose their definition. The paragraph to related to an explanation of “the reasons for applying those definitions” has been deleted;
- c) [draft] VSME – DR 2: added an explanation on the meaning of “governance structure”;
- d) [draft] VSME – DR4: added the new requirement to disclose the list of the key stakeholders.

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p><b>BP-1 – General basis for preparation of the sustainability statements</b></p> <p>3. The undertaking shall disclose the general basis for preparation of its sustainability statement.</p> <p>-----</p> <p>4 The objective of this Disclosure Requirement is to provide an understanding of how the undertaking prepares its sustainability statement, including the scope of consolidation, the value chain information and, where relevant, whether the undertaking has used any of the options for omitting information referred to in points d) and e) in the following paragraph.</p> <p>-----</p> <p>5. The undertaking shall disclose the following information:</p> <p>(a) whether the sustainability statement have been prepared on a consolidated or individual basis;</p> <p>(b) for consolidated sustainability statement:</p> <p>i) a confirmation that the scope of consolidation is the same as for the financial statement; and</p> <p>ii) where applicable, an indication of which subsidiary undertakings included in the consolidation are exempted from annual or consolidated sustainability reporting;</p> <p>(c) to what extent the sustainability statements cover the undertaking’s upstream and downstream value chain (see [draft] ESRS 1 section 5.1 Reporting undertaking and value chain);</p>	<p><b>BP-1 – General basis for preparation of the sustainability statements</b></p> <p>3. The undertaking shall disclose the general basis for preparation of its sustainability statement.</p> <p>-----</p> <p>5. The objective of this Disclosure Requirement is to provide an understanding of how the undertaking prepares its sustainability statements <i>on an individual basis, under art. 19a (6) of the Directive 2013/34/EU of the European Parliament and of the Council</i>, including: <b>the scope of consolidation</b>, the value chain information and, where relevant, where relevant, whether the undertaking has used any of the options for omitting information referred to in points c) <b>and e)</b> in the following paragraph.</p> <p>-----</p> <p>6. The undertaking shall disclose the following information;</p> <p><b>(a) whether the sustainability statement have been prepared on a consolidated or individual basis;</b></p> <p><b>(b) for consolidated sustainability statement:</b></p> <p><b>i) a confirmation that the scope of consolidation is the same as for the financial statement; and</b></p> <p><b>ii) where applicable, an indication of which subsidiary undertakings included in the consolidation are exempted from annual or consolidated sustainability reporting;</b></p> <p><b>(a) to what extent the sustainability statement covers the undertaking’s upstream and downstream value chain, including its subsidiaries, based on the results of the undertaking’s materiality assessment</b> (see</p>	<p><b>BP-1 – General basis for preparation of the sustainability statements</b></p> <p>24. The undertaking shall disclose the general basis for preparation of its sustainability statement.</p> <p>-----</p> <p><del>25. The objective of this Disclosure Requirement is to provide an understanding of how the undertaking prepares its sustainability statements, including whether the sustainability statements have been prepared on a consolidated or individual basis.</del></p> <p>26. The undertaking shall disclose the following information:</p> <p><b>(a) whether the sustainability statement has been prepared on a consolidated or individual basis;</b></p> <p><b>(b) for consolidated sustainability statement, a specification of the related reporting scope (i.e. subsidiaries); and</b></p> <p><b>c) if applicable, to what extent the sustainability statement covers the undertaking’s upstream and downstream value chain</b></p> <p><b>Disclosure Requirement 1 – Basis for preparation</b></p>	<ul style="list-style-type: none"> <li>– Not pursuing alignment with IFRS</li> <li>– According to CSRD art. 19 a) p. 6, undertakings are not obliged to report on a consolidated basis</li> <li>– Value chain has to be considered for the cap (CSRD art. 29 b p. 4)</li> <li>– Exemption related to articles 19a (3) and 29a (3) to be verified</li> <li>– Secretariat proposal on VSME is to not include the DRs related to name, legal form, address, contact point, reporting period, because usual content of an undertaking report</li> <li>– In <b>green</b>, the parts deleted after the confirm from the EC that the perspective of LSME ESRS is exclusively individual statement, as if the LSME has to prepare the consolidated of a large group, it has to use the Set 1 for large undertakings</li> <li>– VSME will be on a consolidated basis (while LSME is on an individual basis) due to the fact that is outside art. 19 a 6)</li> <li>– Pending: the EC to confirm whether LSME can include an option to omit information along the same lines of the options of the member states in Set 1</li> <li>– VSME does not include the request to cover value chain, which is on the contrary very important in LSME due to the value chain cap</li> <li>– VSME proposal does not include paragraphs on the objectives, to simplify and streamline the standard</li> </ul>

Building blocks (revised version) – Issues Paper

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<p>d) whether the undertaking has used the option to omit a specific piece of information corresponding to intellectual property, know-how or the results of innovation (see [draft] ESRS 1 section 7.7 Information on intellectual property, know-how or results of innovation); and</p> <p>(e) for undertakings based in an EU member state that allows for the exemption from disclosure of impending developments or matters in course of negotiation, as provided for in articles 19a(3) and 29a (3) of the Directive 2013/34/EU of the European Parliament and of the Council, whether the undertaking has used that exemption .</p>	<p>[draft] Section 1 chapter 4.1 Reporting undertaking and value chain). (b) If the undertaking disclose information in its sustainability statement which cover also value chain, including subsidiaries, it shall specify the related scope.</p> <p>(c) whether the undertaking has used the option to omit a specific piece of information corresponding to intellectual property, know-how or the results of innovation (see [draft] Section 1 paragraph 6.7 Information on intellectual property, know-how or results of innovation); and</p> <p>(d) for undertakings based in an EU member state that allows for the exemption from disclosure of impending developments or matters in course of negotiation, as provided for in articles 19a(3) and 29a (3) of the Directive 2013/34/EU of the European Parliament and of the Council, whether the undertaking has used that exemption.</p>	<p><del>24. The undertaking shall inform about its name, address, activities, sector, reporting period, and employees.</del></p> <p><del>25. The objective of this Disclosure Requirement is to provide an understanding of the sector of activity; how the undertaking operates; and where the activities take place.</del></p> <p><del>26. The disclosure shall include the following information:</del>  <del>(a) name of the undertaking and its legal form, its, and the address of its office and production sites;</del>  <del>(b) whether the sustainability statements have been prepared on a consolidated or individual basis;</del>  <del>(c) reporting period; and</del>  <del>(d) a point of contact (address, email).</del></p>	
<p><b>BP-2 – Disclosures in relation to specific circumstances</b></p> <p>6. The undertaking shall provide disclosures in relation to specific circumstances. -----</p> <p>7. The objective of this Disclosure Requirement is to provide an understanding of the effect of these specific circumstances on the preparation of the sustainability statement. -----</p> <p>8. The undertaking may report this information alongside the disclosures to which they refer. -----</p> <p><b>Time horizons</b></p>	<p><b>BP-2 – Disclosures in relation to specific circumstances</b></p> <p>7. The undertaking shall provide disclosures in relation to specific circumstances. -----</p> <p>8. The objective of this Disclosure Requirement is to provide an understanding of the effect of these specific circumstances on the preparation of the sustainability statement. -----</p> <p>9. The undertaking may report this information alongside the disclosures to which they refer. -----</p> <p><b>Time horizons</b></p>	<p><b>BP-2 – Disclosures in relation to specific circumstances</b></p> <p>7. The undertaking shall provide disclosures in relation to specific circumstances. -----</p> <p><del>8. The objective of this Disclosure Requirement is to provide an understanding of the effect of these specific circumstances on the preparation of the sustainability statements. -----</del></p> <p>9. The undertaking may report this information alongside the disclosures to which they refer. -----</p> <p><b>Time horizons</b></p>	<ul style="list-style-type: none"> <li>– In Cluster 8 proposal, there was not included a content defined in BP-2.</li> <li>– VSME does not include the request to cover value chain, which is on the contrary very important in LSME due to the value chain cap</li> <li>– LSME includes additional simplifications to BP-2. As already discuss at SR TEG meeting, in the analysis between current draft LSME and IFRS S1 and S2, the Secretariat has further considered that, a structural misalignment is built-in via the CSRD. In particular, for what concerns i) opportunities, ii) targets and iii) Gov-5 incentive schemes for which art. 29c</li> </ul>

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<p>9. When the undertaking has deviated from the medium- or long-term time horizons defined by ESRS 1 section 6.4 Definition of short-, medium- and long-term for reporting purposes, it shall describe:</p> <p>(a) its definitions of medium- or long-term time horizons; and</p> <p>(b) the reasons for applying those definitions.</p> <p>-----</p> <p><b>Value chain estimation</b></p> <p>10. When metrics include value chain data estimated using indirect sources, such as sector-average data or other proxies, the undertaking shall:</p> <p>a) identify the metrics; and</p> <p>b) describe the basis for preparation;</p> <p>c) describe the resulting level of accuracy; and</p> <p>d) where applicable, the planned actions to improve the accuracy in the future (see [draft] ESRS 1 chapter 5 Value chain).</p> <p>-----</p> <p><b>Sources of estimation and outcome uncertainty</b></p> <p>11. When significant estimation uncertainty or significant outcome uncertainty exists (see ESRS 1 section 7.2 Sources of estimation and outcome uncertainty), the undertaking shall:</p> <p>(a) identify metrics it has disclosed that have significant estimation uncertainty, disclose the sources and nature of the estimation uncertainties and the factors affecting the uncertainties; and</p> <p>(b) when there is significant outcome uncertainty, disclose information about the assumptions it makes about the future and other sources of significant uncertainty, related to the information it discloses.</p>	<p>10. When the undertaking has deviated from the medium- or long-term time horizons defined by [draft] Section 1 chapter 5.4 Definition of short-, medium- and long-term for reporting purposes, it shall describe</p> <p><del>(a) its definitions of medium- or long-term time horizons; and</del></p> <p><del>(b) the reasons for applying those definitions.</del></p> <p>-----</p> <p><b>Value chain estimation</b></p> <p>11. When metrics include value chain data estimated using indirect sources, such as sector-average data or other proxies, the undertaking shall:</p> <p>a) identify the metrics; and</p> <p>b) describe the basis for preparation;</p> <p>c) describe the resulting level of accuracy; and</p> <p>d) where applicable, the planned actions to improve the accuracy in the future (see [draft] ESRS 1 chapter 5 Value chain).</p> <p>-----</p> <p><b>Sources of estimation and outcome uncertainty</b></p> <p>12. When significant estimation uncertainty or significant outcome uncertainty exists (see [draft] Section 1 chapter 6.2 Sources of estimation and outcome uncertainty), the undertaking shall:</p> <p>(a) identify metrics it has disclosed that have significant estimation uncertainty, disclose the sources and nature of the estimation uncertainties and the factors affecting the uncertainties; and</p> <p>(b) when there is significant outcome uncertainty, disclose information about the assumptions it makes about the future and other sources of significant uncertainty, related to the information it discloses.</p>	<p><del>10. When it has deviated from the medium- or long-term time horizons definitions</del> <i>If the undertaking adopts medium- or long-term time horizons when preparing its sustainability statement, the undertaking it shall describe:</i></p> <p>(a) its definitions of medium- or long-term time horizons; and</p> <p>(b) the reasons for applying those definitions.</p> <p>-----</p> <p><b>Value chain estimation</b></p> <p><del>11. When metrics include value chain data estimated using indirect sources, such as sector-average data or other proxies, the undertaking shall:</del></p> <p><del>(a) identify the metrics; and</del></p> <p><del>(b) describe the basis for preparation; and</del></p> <p><del>(c) describe the resulting level of accuracy.</del></p> <p>-----</p> <p><b>Sources of estimation and outcome uncertainty</b></p> <p>12. When significant estimation uncertainty or significant outcome uncertainty exists the undertaking shall:</p> <p>(a) identify metrics it has disclosed that have significant estimation uncertainty; <del>disclose the sources and nature of the estimation uncertainties and the factors affecting the uncertainties;</del> and</p> <p>(b) when there is significant outcome uncertainty, disclose information about the assumptions it makes <del>about the future and other sources of significant uncertainty,</del> related to the information it discloses.</p>	<p>has not explicit requirements for LSME.</p> <ul style="list-style-type: none"> <li>- From this perspective, even if the draft LSME achieves a high degree of alignment, the full one cannot be achieved. In this respect, the Secretariat suggests that in trade-off between simplifications for LSME according to CSRD and alignment with IFRS S1 and S2, the first one could prevail.</li>   <li>- LSME ESRS includes SR TEG recommendation that “reasonable effort” is used instead of “impracticable” for: <ul style="list-style-type: none"> <li>i. Changes in preparation or presentation of sustainability information</li> <li>ii. Reporting errors in prior periods</li> </ul> </li>   <li>- Secretariat proposal is to apply the same approach also for VSME</li> <li>- LSME keeping the provision to allow companies to signal uncertainty of forward looking information</li> </ul>



Building blocks (revised version) – Issues Paper

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<p>12. When disclosing forward-looking information, the undertaking may indicate that it considers such information to be uncertain.</p> <p>-----</p> <p><b>Changes in preparation or presentation of sustainability information</b></p> <p>13. When changes in the preparation and presentation of sustainability information occur compared to the previous reporting period(s), such as the redefinition or replacement of a metric or target (see ESRS 1 section 7.4 Changes in preparation or presentation in sustainability information), the undertaking shall:</p> <p>a) explain the changes and explain the reasons for those changes, including why the replaced metric provides more useful information; and</p> <p>b) provide restated comparative figures, unless it is impracticable to do so. When it is impracticable to adjust comparative information for one or more prior periods, the undertaking shall disclose that fact.</p> <p>-----</p> <p><b>Reporting errors in prior periods</b></p> <p>14. When material prior period errors exist (see ESRS 1 section 7.5 Reporting errors in prior periods), the undertaking shall disclose:</p> <p>(a) the nature of the prior period material error;</p> <p>(b) to the extent practicable, the correction for each prior period disclosed; and</p>	<p>13. When disclosing forward-looking information, the undertaking may indicate that it considers such information to be uncertain.</p> <p>-----</p> <p><b>Changes in preparation or presentation of sustainability information</b></p> <p>14. When changes in the preparation and presentation of sustainability information occur compared to the previous reporting period(s), such as the redefinition or replacement of a metric or target (see [draft] Section 1 chapter 6.4 Changes in preparation or presentation in sustainability information), the undertaking shall:</p> <p>a) explain the changes and explain the reasons for those changes, including why the replaced metric provides more useful information;</p> <p>and</p> <p>b) provide restated comparative figures, unless it is impracticable to do so with reasonable effort- to do so. When it is impracticable to adjust comparative information for one or more prior periods. In this case, the undertaking shall disclose it that fact.</p> <p>-----</p> <p><b>Reporting errors in prior periods</b></p> <p>15. When material prior period errors exist (see [draft] Section 1 chapter 6.5 Reporting errors in prior periods), the undertaking shall disclose:</p> <p>(a) the nature of the prior period material error;</p> <p>(b) to the extent where possible practicable with reasonable effort, the correction for each prior period disclosed; and</p>	<p>-----</p> <p><b>Changes in preparation or presentation of sustainability information</b></p> <p>13. When changes in the preparation and presentation of sustainability information occur compared to the previous reporting period(s), such as the redefinition or replacement of a metric (or target), the undertaking shall:</p> <p>a) explain the changes;</p> <p>b) where possible with reasonable effort, provide restated comparative figures, unless it is impracticable it is not possible to do so with reasonable effort to do so. When it is In this case, the undertaking shall disclose it.</p> <p>-----</p> <p><b>Reporting errors in prior periods</b></p> <p>14. When material prior period errors exist the undertaking shall disclose:</p> <p>(a) the nature of the prior period material error;</p> <p>(b) where possible with reasonable effort, the correction for the each previous prior period disclosed; and</p> <p>(c) if correction of the error is not practicable with reasonable effort, the circumstances that led to the existence of that condition.</p>	

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>(c) if correction of the error is not practicable, the circumstances that led to the existence of that condition.</p> <p>-----</p> <p><b>Disclosures stemming from local legislations or generally accepted sustainability reporting pronouncements</b></p> <p>15. When the undertaking includes in its sustainability statements information based on local legislations on generally accepted sustainability reporting pronouncements (see ESRS 1 section 8.2 Content and structure of the sustainability statements), in addition to the information prescribed by [draft] ESRS, it shall disclose this fact. In case of partial application of other reporting pronouncements, the undertaking shall provide a precise reference to the paragraphs of the standard applied.</p> <p>-----</p> <p><b>Incorporation by reference</b></p> <p>16. When the undertaking incorporates information by reference (see ESRS 1 section 9.1 Incorporation by reference), it shall disclose a list of the disclosure requirements of ESRS it shall disclose a list of the disclosure requirements of ESRS, or the specific datapoints mandated by a Disclosure Requirement, that have been incorporated by reference.</p> <p>-----</p> <p><b>Use of phase-In provisions in accordance with Appendix C of ESRS 1</b></p> <p>17. If an undertaking or group not exceeding on its balance sheet date the average number of 750 employees during the financial year decides to omit the information required by ESRS E4, ESRS S1, ESRS S2, ESRS S3 or ESRS</p>	<p>(c) if correction of the error is not <i>possible practicable with reasonable effort</i>, <del>practicable</del>, the circumstances that led to the existence of that condition.</p> <p>-----</p> <p><b>Disclosures stemming from local legislations or generally accepted sustainability reporting pronouncements</b></p> <p>16. When the undertaking includes in its sustainability statements information based on local legislations on generally accepted sustainability reporting pronouncements (see [draft] Section 1 chapter 7.2 Content and structure of the sustainability statements), in addition to the information prescribed by [draft] ESRS, it shall disclose this fact. In case of partial application of other reporting pronouncements, the undertaking shall provide a precise reference to the paragraphs of the standard applied.</p> <p>-----</p> <p><b>Incorporation by reference</b></p> <p>17. When the undertaking incorporates information by reference (see [draft] Section 1 chapter 9.1 Incorporation by reference), it shall disclose a list of the disclosure requirements of <i>this</i> [draft] ESRS, or the specific datapoints mandated by a Disclosure Requirement, that have been incorporated by reference.</p> <p>-----</p> <p><b>Use of phase-In provisions in accordance with Appendix C of ESRS 1</b></p> <p>18. If an undertaking or group not exceeding on its balance sheet date the average number of 750 employees during the financial year decides to omit the information required by ESRS E4, ESRS S1, ESRS S2, ESRS S3 or ESRS S4 in accordance with Appendix C of ESRS 1, it shall nevertheless disclose whether the</p>	<p><del><b>Disclosures stemming from local legislations or generally accepted sustainability reporting pronouncements</b></del></p> <p><del>15. When the undertaking includes in its sustainability statements information based on local legislations on generally accepted sustainability reporting pronouncements (see [draft] Section 1 chapter 7.2 Content and structure of the sustainability statements), in addition to the information prescribed by <i>this</i> [draft] ESRS, it shall disclose this fact. In case of partial application of other reporting pronouncements, the undertaking shall provide a precise reference to the paragraphs of the standard applied.</del></p> <p><del>-----</del></p> <p><b>Incorporation by reference</b></p> <p><del>15. To avoid duplication of reported information the undertaking may refer in its sustainability statement to disclosures that it reports in other parts of its corporate reporting that are as accessible as the sustainability statements (incorporation by reference)</del></p> <p>-----</p>	<p>-----</p> <ul style="list-style-type: none"> <li>- Content added in ESRS version June 2023</li> <li>- Considering the 2 years opt-out for LSME defined by CSRD art. 19a 7), Secretariat proposal is to not include these phase-In provisions for LSME</li> </ul>

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>S4 in accordance with Appendix C of ESRS 1, it shall nevertheless disclose whether the sustainability topics covered respectively by ESRS E4, ESRS S1, ESRS S2, ESRS S3 and ESRS S4 have been assessed to be material as a result of the undertaking's materiality assessment. In addition, if one or more of these topics has been assessed to be material, the undertaking shall, for each material topic:</p> <p>a) disclose the list of matters (i.e. topic, sub-topic or sub-sub-topic) in AR 16 ESRS 1 Appendix A that are assessed to be material and how the undertaking's business model and strategy take account of the impacts of the undertaking related to those matters. The undertaking may identify the matter at the level of topic, sub-topic or sub-sub-topic;</p> <p>b) briefly describe any time-bound targets it has set related to the matters in question, the progress it has made towards achieving those targets, and whether its targets related to biodiversity and ecosystems are based on conclusive scientific evidence;</p> <p>c) briefly describe its policies in relation to the matters in question;</p> <p>d) briefly describe actions it has taken to identify, monitor, prevent, mitigate, remediate or bring an end to actual or potential adverse impacts related to the matters in question, and the result of such actions; and</p> <p>e) disclose metrics relevant to the matters in question.</p>	<p>sustainability topics covered respectively by ESRS E4, ESRS S1, ESRS S2, ESRS S3 and ESRS S4 have been assessed to be material as a result of the undertaking's materiality assessment. In addition, if one or more of these topics has been assessed to be material, the undertaking shall, for each material topic:</p> <p>a) disclose the list of matters (i.e. topic, sub-topic or sub-sub-topic) in AR 16 ESRS 1 Appendix A that are assessed to be material and how the undertaking's business model and strategy take account of the impacts of the undertaking related to those matters. The undertaking may identify the matter at the level of topic, sub-topic or sub-sub-topic;</p> <p>b) briefly describe if it has set time-bound targets it has set related to the matters in question, the progress it has made towards achieving those targets, and whether its targets related to biodiversity and ecosystems are based on conclusive scientific evidence;</p> <p>c) briefly describe its policies in relation to the matters in question;</p> <p>d) briefly describe actions it has taken to identify, monitor, prevent, mitigate, remediate or bring an end to actual or potential adverse impacts related to the matters in question, and the result of such actions; and</p> <p>e) disclose metrics relevant to the matters in question.</p>		

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p><b>GOV-1 – The role of the administrative, management and supervisory bodies</b> 19. The undertaking shall disclose the composition of the administrative, management and supervisory bodies, their roles and responsibilities and access to expertise and skills with regard to sustainability matters.</p> <p>20. The objective of this Disclosure Requirement is to provide an understanding of: (a) the composition and diversity of the administrative, management and supervisory bodies; (b) the roles and responsibilities of the administrative, management and supervisory bodies in exercising oversight of the process to manage material impacts, risks and opportunities, including management’s role in these processes; and (c) the expertise of its administrative, management and supervisory bodies on sustainability matters or access to such expertise and skills.</p> <p>21. The undertaking shall disclose the following information about the composition and diversity of the members of the undertaking’s administrative, management and supervisory bodies: (a) classification of members between executive and non-executive; (b) representation of employees and other workers; (c) experience relevant to the sectors, products and geographic locations of the undertaking; (d) percentage by gender and other aspects of diversity that the undertaking considers. The board’s gender diversity shall be</p>	<p><b>GOV-1 – The role of the administrative, management and supervisory bodies</b> 17. The undertaking shall disclose the composition of the administrative, management and supervisory bodies, their roles and responsibilities and access to expertise and skills with regard to sustainability matters.</p> <p>18. The objective of this Disclosure Requirement is to provide an understanding of: (a) the composition and diversity of the administrative, management and supervisory bodies; (b) the roles and responsibilities of the administrative, management and supervisory bodies in exercising oversight of the process to manage material impacts and risks and opportunities, including management’s role in these processes; and (c) the expertise of its administrative, management and supervisory bodies on sustainability matters or access to such expertise and skills.</p> <p>19. The undertaking shall disclose the following information about the composition and diversity of the members of the undertaking’s administrative, management and supervisory bodies: (a) classification of members between executive and non-executive; (b) representation of employees and other workers; (c) percentage by gender and other aspects of diversity that the undertaking considers. The board’s gender diversity shall be calculated</p>	<p><b>DR 2 – Governance bodies responsibilities Ownership and governance.</b> 27. The undertaking shall provide information about its ownership structure and governance in relation to sustainability matters.</p> <p>28. The undertaking shall describe ownership of the undertaking, whether it is incorporated, a partnership, a sole proprietorship or of another type such as a non-profit organisation, an association or a charity and give an overview of a) its governance structure, in relation to sustainability matters. <i>If applicable in terms of roles and responsibilities of the highest governance body or of an individual in its organisation, in exercising oversight on material sustainability matters</i></p> <p><i>(b) when there is a governance body, the related gender diversity ratio.</i></p>	<ul style="list-style-type: none"> <li>– As shared during the SR TEG meeting held on 12 May 2023, the LSME proposal has been included some simplifications compared to Set 1.</li> <li>– EFRAG Secretariat conducted a research on LSMEs on the financial statements/Corporate Governance Reports and concluded that this kind of information is not included in the reports</li> <li>– The requirement on "skills" is also in art. 29b CSRD</li> <li>– Secretariat proposal on the additional specification, from Set 1 vers. June 2023, (highlighted in grey), related to “unitary/dual board”, is to add it in the AR</li> <li>– In the column VSME the markup in light blue shows items that were proposed in Cluster 8 document that we propose to delete</li> </ul>

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>calculated as an average ratio of female to male board members; and (e) the percentage of independent board members. For undertakings with a unitary board, this corresponds to the percentage of independent non-executive board members. For undertakings with a dual board, it corresponds to the percentage of independent members of the supervisory body.</p> <p>22. The undertaking shall disclose the following information about the roles and responsibilities of the administrative, management and supervisory bodies:</p> <p>(a) the identity of the administrative, management and supervisory bodies (such as a board committee or similar) or individual within a body responsible for oversight of impacts, risks and opportunities;</p> <p>(b) how each body’s responsibilities for impacts, risks and opportunities are reflected in the undertaking’s terms of reference, board mandates and other related policies;</p> <p>(c) a description of management’s role in assessing and managing impacts, risks and opportunities, including:</p> <p>i) whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee;</p> <p>ii) information about the reporting lines to the administrative, management and supervisory bodies;</p> <p>iii) whether dedicated controls and procedures are applied to the management of impacts, risks and opportunities and, if so, how they are integrated with other internal functions; and</p> <p>(d) how the administrative, management and supervisory bodies and senior executive management oversee the setting of targets</p>	<p>as an average ratio of female to male board members; and (d) the percentage of independent board members. For undertakings with a unitary board, this corresponds to the percentage of independent non-executive board members. For undertakings with a dual board, it corresponds to the percentage of independent members of the supervisory body. <b>(In AR)</b></p> <p>20. The undertaking shall disclose <del>the following information about the roles and responsibilities of the administrative, management and supervisory bodies:</del></p> <p>(a) <del>whether a governance body (administrative, management or supervisory bodies), or an individual in the undertaking organisation (such as management level or another employee) is responsible for oversight of sustainability-impacts and risks</del> <b>the identity of the administrative, management and supervisory bodies (such as a board committee or similar) or individual within a body responsible for oversight of impacts, risks and opportunities;</b></p> <p>(b) <del>how each body’s responsibilities for impacts, risks and opportunities are reflected in the undertaking’s terms of reference, board mandates and other related policies;</del> <b>a description of management’s role in assessing and managing impacts, risks and opportunities, including:</b></p> <p><del>i) whether that role is delegated to a specific management level position or committee and how oversight is exercised over that position or committee;</del></p> <p><del>ii) information about the reporting lines to the administrative, management and supervisory bodies;</del></p>		

*Building blocks (revised version) – Issues Paper*

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>related to material impacts, risks and opportunities, and how they monitor progress towards them.</p> <p>23. The disclosure shall include a description of how the administrative, management and supervisory bodies ensure the availability of the appropriate skills and expertise to oversee sustainability matters, including:                      (a) the sustainability-related expertise that the bodies, as a whole, either directly possess or can leverage, for example through access to experts or training; and                      (b) how those skills and expertise relate to the undertaking's material impacts, risks and opportunities .</p>	<p><del>iii) whether dedicated controls and procedures are applied to the management of impacts, risks and opportunities and, if so, how they are integrated with other internal functions; and</del>  <del>(d) how the administrative, management and supervisory bodies and senior executive management oversee the setting of targets related to material impacts, risks and opportunities, and how they monitor progress towards them.</del>                      (c) <i>If applicable, a brief description of how the administrative, management and supervisory bodies ensure the availability of the appropriate skills and expertise to oversee sustainability matters.</i></p> <p><del>21. The disclosure shall include a description of how the administrative, management and supervisory bodies ensure the availability of the appropriate skills and expertise to oversee sustainability matters, including:</del>  <del>(a) the sustainability-related expertise that the bodies, as a whole, either directly possess or can leverage, for example through access to experts or training; and</del>  <del>(b) how those skills and expertise relate to the undertaking's material impacts, risks and opportunities.</del></p>		
<p><b>GOV-4 - Statement on due diligence</b></p> <p>30. The undertaking shall disclose a mapping of the information provided in its sustainability statement about the due diligence process.</p> <p>31. The objective of this Disclosure Requirement is to facilitate an understanding of the undertaking's due diligence process with regard to sustainability matters.</p>	<p><b>GOV-2 - Sustainability due diligence ("report if you have" plugged in component)</b></p> <p>23. The undertaking shall disclose <i>whether it has adopted a mapping of the information provided in its sustainability statement about the due diligence process.</i></p> <p>24. The objective of this Disclosure Requirement is to facilitate an understanding of the undertaking's due diligence process with regard to sustainability matters.</p>		<p align="center">-</p>



Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>32. The main aspects and steps of due diligence referred to under ESRS 1 chapter 4 Due diligence are related to a number of cross-cutting and topical Disclosure Requirements under the ESRS. The undertaking shall 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, to allow a depiction of the actual practices of the undertaking with regard to due diligence.</p> <p>33. This disclosure requirement does not mandate any specific behavioural requirements with regard to due diligence actions and does not extend or modify the role of administrative, management and supervisory bodies as mandated by other legislation or regulation.</p>	<p><del>25. The main aspects and steps of due diligence referred to under ESRS 1 chapter 4 Due diligence are related to a number of cross-cutting and topical Disclosure Requirements under the ESRS. The undertaking shall 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, to allow a depiction of the actual practices of the undertaking with regard to due diligence.</del></p> <p><i>shall disclose whether it has adopted sustainability due diligence process(es) or not.</i></p> <p><i>26. If the undertaking has implemented such processes, it shall provide a mapping that explains how and where the sustainability due diligence process(es) are reflected in its sustainability reporting to allow a depiction of the actual practices of the undertaking with regard to due diligence.</i></p> <p>27. . This disclosure requirement does not mandate any specific behavioural requirements with regard to due diligence actions and does not extend or modify the role of administrative, management and supervisory bodies as mandated by other legislation or regulation.</p>		
<p><b>SBM-1 – Market position, strategy, business model(s) and value chain</b></p> <p>36. The undertaking shall disclose the elements of its strategy that relate to or impact sustainability matters, its business model and its value chain.</p> <p>37. The objective of this Disclosure Requirement is to describe the key elements of the undertaking’s general strategy that relate to or affect sustainability matters, and</p>	<p><b>SBM-1 – Market position, strategy, business model(s) and value chain</b></p> <p>27. The undertaking shall disclose the elements of its strategy that relate to or impact sustainability matters, its business model and its value chain.</p> <p>28. The objective of this Disclosure Requirement is to describe the key elements of the undertaking’s general strategy that relate to or affect sustainability matters, and</p>	<p><b>DR 3 – Business model, strategy and value chain</b></p> <p>30. The undertaking shall disclose the <i>key</i> elements of its strategy that relate to or impact sustainability matters and its business model <del>and its value chain.</del></p> <p>31. <del>The objective of this Disclosure Requirement is to describe the key elements of the undertaking’s general strategy that relate to or affect sustainability matters, and</del></p>	<ul style="list-style-type: none"> <li>– In LSME, the breakdown by revenue is deleted and replaced with the requirement to include a list of the sectors</li> <li>– In VSME proposal the Secretariat has added further simplification</li> </ul>

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>the key elements of the undertaking's business model and value chain, in order to provide an understanding its exposure to impacts, risks and opportunities and where they originate.</p> <p>-----</p> <p>38. The undertaking shall disclose the following information about the key elements of its general strategy that relate to or affect sustainability matters:</p> <p>(a) a description of:</p> <p>i. significant groups of products and/or services offered, including changes in the reporting period (new/removed products and/or services);</p> <p>ii. significant markets and/or customer groups served, including changes in the reporting period (new/removed markets and/or customer groups);</p> <p>iii. headcount of employees by geographical areas; and</p> <p>iv. where applicable and material, products and services under bans in certain markets, including potential bans in relation to material public initiatives and considerations;</p> <p>(b) a breakdown of total revenue, as included in its financial statements, by significant ESRS sectors. When the undertaking provides segment reporting as required by IFRS 8 Operating segments in its financial statements, this sector revenue information shall be, as far as possible, reconciled with IFRS 8 information;</p> <p>(c) a list of the additional ESRS sectors beyond the ones reflected under paragraph 38(b), in which the undertaking develops significant activities, or in which it is or may be connected to material impacts. The identification of these additional ESRS sectors shall be consistent with the way these have been considered by the</p>	<p>the key elements of the undertaking's business model and value chain, in order to provide an understanding its exposure to impacts <i>and</i> risks and opportunities and where they originate.</p> <p>-----</p> <p>29. The undertaking shall disclose the following information about the key elements of its general strategy that relate to or affect sustainability matters:</p> <p>(a) a description of:</p> <p>i. significant groups of products and/or services offered, including changes in the reporting period (new/removed products and/or services);</p> <p>ii. significant markets and/or customer groups served, including changes in the reporting period (new/removed markets and/or customer groups);</p> <p>iii. <i>if relevant</i>, headcount of employees by geographical areas; and</p> <p>iv. where applicable and material, products and services under bans in certain markets, including potential bans in relation to material public initiatives and considerations.</p> <p><del>(b) a breakdown of total revenue, as included in its financial statements, by significant ESRS sectors. When the undertaking provides segment reporting as required by IFRS 8 Operating segments in its financial statements, this sector revenue information shall be, as far as possible, reconciled with IFRS 8 information</del></p> <p><i>b) the list of significant ESRS sectors in which it operates, including the sectors in which the undertaking develops significant activities, or in which it is or may be connected to material impacts. The identification of these additional ESRS sectors shall be consistent with the way these have been considered by the undertaking when performing its materiality</i></p>	<p>the key elements of the undertaking's business model and value chain, in order to provide an understanding its exposure to impacts <i>and</i> risks and opportunities and where they originate.</p> <p>-----</p> <p><del>32. The undertaking shall provide a statement about the relevance of the business operations related to positive and negative impacts on people and the environment as well as the risks and opportunities for the financial performance. It shall also describe the strategy to pursue its commitment to reach its targets.</del></p> <p>33. The disclosure shall include the following information on business model(s) and <i>the key elements of its strategy that relate to or affect sustainability matters</i>:</p> <p><i>(a) a description of products and/or services offered;</i></p> <p><i>(b) a description of market(s) the undertaking operates in (B2B, wholesale, retail, geography); description of the sector (sectors) of activity in which it operates and products and services offered;</i></p> <p><i>(c) the list of significant ESRS sectors in which it operates</i></p> <p><del>(b) a description of the potential challenges, positive and/or negative that relate to the purpose, the business model and/or the business relationships (e.g., where you want to go and why; why do you do, what you do?);</del></p> <p><i>(c) a description of the overall strategy for the short term to long term (depending on the characteristic of the business), and if applicable the key elements of its strategy that relate to or affect sustainability matters with respect to managing the sustainability matters that are most important for the undertaking;</i> and</p>	



Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>undertaking when performing its materiality assessment and with the way it discloses material sector-specific information; (d) where applicable, a statement indicating, together with the related revenues, that the undertaking is active in:</p> <p>i. the fossil fuel (coal, oil and gas) sector , i.e., it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council;</p> <p>ii. chemicals production, i.e., its activities fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006;</p> <p>iii. controversial weapons such as anti-personnel mines, cluster munitions, chemical weapons and biological weapons; and/or</p> <p>iv. the cultivation and production of tobacco;</p> <p>(e) its sustainability-related goals in terms of significant groups of products and services, customer categories, geographical areas and relationships with stakeholders;</p> <p>(f) an assessment of its current significant products and/or services, and significant markets and customer groups, in relation to its sustainability-related goals; and</p> <p>(g) the elements of the undertaking's strategy that relate to or impact sustainability matters, including the main challenges ahead, critical solutions or projects to be put in place, when relevant for sustainability reporting</p> <p>-----</p> <p>41. If the undertaking is based in an EU Member State that allows for an exemption from the disclosure of the information referred to in Article 18, paragraph 1, sub-point (a) of Directive 2013/34/EU18, and if the undertaking has made use of that</p>	<p>assessment and with the way it discloses material sector-specific information; (c) where applicable, a statement indicating, together with the related revenues, that the undertaking is active in:</p> <p>i. the fossil fuel (coal, oil and gas) sector , i.e., it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council;</p> <p>ii. chemicals production , i.e., its activities fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006;</p> <p>iii. controversial weapons such as anti-personnel mines, cluster munitions, chemical weapons and biological weapons; and/or</p> <p>iv. the cultivation and production of tobacco;</p> <p>(d) its sustainability-related goals. <i>If applicable</i>, in terms of significant groups of products and services, customer categories, geographical areas and relationships with stakeholders;</p> <p>(e) an assessment of its current significant products and/or services, and significant markets and customer groups, in relation to its sustainability-related goals; and</p> <p><del>(g) the elements of the undertaking's strategy that relate to or impact sustainability matters, including the main challenges ahead, critical solutions or projects to be put in place, when relevant for sustainability reporting</del></p> <p>-----</p> <p>41. If the undertaking is based in an EU Member State that allows for an exemption from the disclosure of the information referred to in Article 18, paragraph 1, sub-</p>	<p><del>(d) the engagement of the undertaking on specific sustainability matters related to its own operations,</del> (d)-if applicable, the participation to business associations, and underwriting of ethical codes of conduct.</p> <p>34. <i>The undertaking shall disclose a description of its value chain, including</i></p> <p>(a) <i>main features of its upstream and downstream value chain;</i></p> <p>(b) <i>main business actors (such as key suppliers, customers distribution channels and end-users) and their relationship to the undertaking.</i></p> <p><del>The disclosure on value chain shall include a description of what is deemed particularly notable regarding sustainability matters about the (main) relationships of the undertaking with stakeholders in the value chain: suppliers, customers, communities.</del></p>	

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>exemption, it may omit the breakdown of revenue by significant ESRS sector required by paragraph 40(b). In this case the undertaking shall nevertheless disclose the list of ESRS sectors that are significant for the undertaking.</p> <p>-----</p> <p>42. The undertaking shall disclose a description of its business model and value chain, including:</p> <p>(a) its inputs and its approach to gathering, developing and securing those inputs;</p> <p>(b) its outputs and outcomes in terms of current and expected benefits for customers, investors and other stakeholders; and</p> <p>(c) the main features of its upstream and downstream value chain and the undertaking’s position in its value chain, including a description of the main business actors (such as key suppliers, customers distribution channels and end-users) and their relationship to the undertaking. When the undertaking has multiple value chains, the disclosure shall cover the key value chains.</p>	<p><del>point (a) of Directive 2013/34/EU18, and if the undertaking has made use of that exemption, it may omit the breakdown of revenue by significant ESRS sector required by paragraph 40(b). In this case the undertaking shall nevertheless disclose the list of ESRS sectors that are significant for the undertaking.</del></p> <p>-----</p> <p>(f). The undertaking shall disclose a description of its business model and value chain, including: a) <i>its inputs, outputs and outcomes (in terms of current and expected benefits for its stakeholders)</i></p> <p>b) <i>the main features of its upstream and downstream value chain and the undertaking’s position in its value chain, including a description of the main business actors (such as key suppliers, customers distribution channels and end-users) and their relationship to the undertaking.</i></p> <p><del>When the undertaking has multiple value chains, the disclosure shall cover the key value chains.</del></p>		
<p><b>SBM-2 – Interests and views of stakeholders</b></p> <p>43. The undertaking shall disclose how the interests and views of its stakeholders are taken into account by the undertaking’s strategy and business model.</p> <p>-----</p> <p>44. The objective of this Disclosure Requirement is to provide an understanding of how stakeholders’ interests and views</p>	<p><b>SBM-2 – Interests and views of stakeholders (“report if you have” plugged in component)</b></p> <p>30. <del>When the undertaking engages with stakeholders, it shall disclose how their interests and views of its stakeholders are taken into account by in the undertaking’s its strategy and business model.</del></p> <p>-----</p> <p>31. The objective of this Disclosure Requirement is to <del>understand the extent to which provide an understanding of how</del></p>	<p><b>DR4 – Key stakeholders</b></p> <p>35. <del>Where the undertaking engages with stakeholders, it may disclose:</del></p> <p>a) <del>the list of its key stakeholders</del></p> <p>b) <del>if applicable, a brief description of the related engagement activities</del></p>	<p>– the Secretariat proposal is to apply minor changes in LSME to better specify that “When the undertaking engages with its stakeholders, the undertaking shall disclose” the information required in</p>

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>inform the undertaking’s strategy and business model.</p> <p>-----</p> <p>45. The undertaking shall disclose a summarised description of:</p> <p>(a) its stakeholders engagement, including:</p> <ul style="list-style-type: none"> <li>i) the undertaking’s key stakeholders;</li> <li>ii) whether engagement with them occurs and for which categories of stakeholders;</li> <li>iii) how it is organised;</li> <li>iv) its purpose; and</li> <li>v) how its outcome is taken into account by the undertaking;</li> </ul> <p>(b) the undertaking’s 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 undertaking’s sustainability due diligence process(es) and/or materiality assessment process (see Disclosure Requirement IRO-1 of this [draft] Standard);</p> <p>(c) where applicable, amendments to its strategy and/or business model, including:</p> <ul style="list-style-type: none"> <li>i) how the undertaking has amended or expects to amend its strategy and/or business model to address the interests and views of its stakeholders;</li> <li>ii) any further steps that are being planned and in what timeline; and</li> <li>iii) whether these steps are likely to modify the relationship with and views of stakeholders; and</li> </ul> <p>(d) whether and how the administrative, management and supervisory bodies are informed about the views and interests of</p>	<p>stakeholders’ interests and views inform the undertaking’s strategy and business model.</p> <p>-----</p> <p>32. <del>When the undertaking engages with its key stakeholders</del> <del>The undertaking</del> it shall disclose a summarised description of:</p> <p>(a) its stakeholders engagement, including:</p> <ul style="list-style-type: none"> <li>i) the undertaking’s key stakeholders;</li> <li><del>ii) whether engagement with them occurs and for which categories of stakeholders;</del></li> <li>iii) how it is organised;</li> <li>iv) its purpose; and</li> <li>v) how its outcome is taken into account by the undertaking;</li> </ul> <p>(b) the undertaking’s 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 <del>undertaking’s sustainability due diligence process(es) and/or</del> materiality assessment process (see Disclosure Requirement IRO-1 of this [draft] ESRS);</p> <p>(c) where applicable, amendments to its strategy and/or business model, including:</p> <ul style="list-style-type: none"> <li>i) how the undertaking has amended or expects to amend its strategy and/or business model to address the interests and views of its stakeholders;</li> <li>ii) any further steps that are being planned and in what timeline; and</li> <li>iii) whether these steps are likely to modify the relationship with and views of stakeholders; and</li> </ul> <p><del>(d) whether and how the administrative, management and supervisory bodies are</del></p>		

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>affected stakeholders with regard to the undertaking's sustainability-related impacts.</p>	<p><del>informed about the views and interests of affected stakeholders with regard to the undertaking's sustainability-related impacts.</del></p>		
<p><b>SBM-3 - Material impacts, risks and opportunities and their interaction with strategy and business model</b></p> <p>46. The undertaking shall disclose its material impacts, risks and opportunities and how they interact with its strategy and business model.</p> <p>-----</p> <p>47. The objective of this Disclosure Requirement is to provide an understanding of the material impacts, risks and opportunities as they result from the undertaking's materiality assessment and how they originate from and trigger adaptation of the undertaking's strategy and business model including its resources allocation. The information to be disclosed about the management of the undertaking's material impacts, risks and opportunities is prescribed in topical ESRS and in sector-specific standards, which shall be applied in conjunction with the Minimum Disclosure Requirements on policies, actions and targets established in this Standard.</p> <p>-----</p> <p>48. The undertaking shall disclose its material impacts, risks and opportunities resulting from its materiality assessment (see Disclosure Requirement IRO-1 of this Standard). The disclosure shall include the following:</p> <p>(a) the undertaking's material impacts, risks and opportunities, including</p> <p>i. a brief description of the material negative or positive impacts and how they affect (or,</p>	<p><b>SBM-3 - Material impacts and risks and opportunities and their interaction with strategy and business model</b></p> <p>33. The undertaking shall disclose its material impacts <i>and</i> risks <i>and</i> opportunities and how they interact with its strategy and business model.</p> <p>-----</p> <p>34. The objective of this Disclosure Requirement is to provide an understanding of the material impacts <i>and</i> risks <i>and</i> opportunities as they result from the undertaking's materiality assessment and how they originate from and trigger adaptation of the undertaking's strategy and business model including its resources allocation. The information to be disclosed about the management of the undertaking's material impacts, risks and opportunities is prescribed in this [draft] ESRS, and in sector-specific standards, which shall be applied in conjunction with the Minimum Disclosure Requirements on policies, actions and targets established in this Standard</p> <p>-----</p> <p>35. The undertaking shall disclose its material impacts <i>and</i> risks <i>and</i> opportunities resulting from its materiality assessment (see Disclosure Requirement IRO-1 of this [draft] ESRS). The disclosure shall include the following:</p> <p>(a) the undertaking's material impacts <i>and</i> risks <i>and</i> opportunities, including</p> <p>i. a brief description of the material negative impacts and how they affect (or, in the case of potential impacts, are likely to affect) people or the environment;</p>	<p><b>DR 5 – Material topics and subtopics</b></p> <p>35. The undertaking shall disclose its material <del>its material impacts and risks and opportunities sustainability matters</del> and, if applicable, how they interact with its strategy and business model.</p> <p>34. <del>The objective of this Disclosure Requirement is to provide an understanding of the material impacts and risks and opportunities as they result from the undertaking's materiality assessment and how they originate from and trigger adaptation of the undertaking's strategy and business model including its resources allocation. The information to be disclosed about the management of the undertaking's material impacts, risks and opportunities is prescribed in this [draft] ESRS, and in sector-specific standards, which shall be applied in conjunction with the Minimum Disclosure Requirements on policies, actions and targets established in this Standard</del></p> <p>-----</p> <p>35. The undertaking shall disclose its material <del>impacts and risks and opportunities</del> sustainability topics and subtopics (as defined in Appendix B "List of sustainability topics and subtopics") resulting from its materiality assessment (see Disclosure Requirement IRO-1 of this [draft] ESRS). The disclosure shall include the following:</p> <p>(a) the undertaking's material <del>sustainability topics and subtopics and opportunities</del>, including</p> <p>i. a brief description of <del>them the material</del> negative impacts and how they affect (or, in</p>	<ul style="list-style-type: none"> <li>– In the LSME, <ul style="list-style-type: none"> <li>i. the additional reference to sector specific (pending the decision on sector approach for LSME) and MDR has not been included</li> <li>ii. deleted the content related to the resilience of the undertaking strategy (as agreed with SR TEG)</li> </ul> </li> <li>– In VSME the proposal is to include only a reference to the list of material sustainability matters instead of IRs, and to ask the undertaking to disclose its material matters</li> </ul>

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales										
<p>in the case of potential impacts, are likely to affect) people or the environment;</p> <p>ii. whether and how the impacts originate from or are connected to the undertaking's strategy and business model;</p> <p>iii. the reasonably expected time horizons for those effects; and</p> <p>iv. whether the undertaking is involved with the material impacts through its activities or because of its business relationships (describing the nature of the activities or business relationships concerned and where in its value chain material impacts are concentrated).</p> <p>-----</p> <p>(b) the effects of material impacts, risks and opportunities on its strategy and decision-making, including how the undertaking is responding to these effects. In this context, the undertaking shall disclose any changes the undertaking has made, or plans to make, to its strategy or business model as part of its actions to address particular material impacts or risks, or to pursue particular material opportunities;</p> <p>-----</p>	<p>ii. whether and how the impacts originate from or are connected to the undertaking's strategy and business model;</p> <p>iii. the reasonably expected time horizons for those effects; and</p> <p>iv. whether the undertaking is involved with the material impacts through its activities or because of its business relationships (describing the nature of the activities or business relationships concerned and where in its value chain material impacts are concentrated).</p> <p>-----</p> <p>(b) the effects of material impacts <i>and</i> risks <del>and opportunities</del> on its strategy and decision-making, including how the undertaking is responding to these effects. In this context, the undertaking shall disclose any changes the undertaking has made, or plans to make, to its strategy or business model(s) as part of its actions to address particular material impacts or risks, <del>or to pursue particular material opportunities;</del></p> <p>-----</p> <p>(c) how the material risks <del>and opportunities</del> could reasonably be expected to have an influence on the undertaking's business</p>	<p><del>the case of potential impacts, are likely to affect) people or the environment;</del></p> <p><del>ii. whether and how the impacts originate from or are connected to the undertaking's strategy and business model;</del></p> <p><del>iii. the reasonably expected time horizons for those effects; and</del></p> <p><del>iv. whether the undertaking is involved with the material impacts through its activities or because of its business relationships (describing the nature of the activities or business relationships concerned and where in its value chain material impacts are concentrated).</del></p> <p>-----</p> <p>(b) the <i>effects</i> of material <i>sustainability topics and subtopics</i> on cash flows, financial performance, <i>financial position and its access to finance and its cost of capital and, if applicable, the effects</i> <del>impacts and risks and opportunities</del> on its strategy and decision-making, <del>including how the undertaking is responding to these effects. In this context, the undertaking shall disclose any changes the undertaking has made, or plans to make, to its strategy or business model(s) as part of its actions to address particular material impacts or risks, or to pursue particular material opportunities;</del></p> <p>-----</p> <p>APPENDIX B (ILLUSTRATIVE) (see ESRS 1 AR 14)</p> <table border="1" data-bbox="1079 1125 1545 1356"> <thead> <tr> <th>Topic</th> <th>Sub-topic</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Climate Change</td> <td>Climate change adaptation</td> </tr> <tr> <td>Climate change mitigation</td> </tr> <tr> <td>Energy</td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td></td> <td></td> </tr> </tbody> </table>	Topic	Sub-topic	Climate Change	Climate change adaptation	Climate change mitigation	Energy					
Topic	Sub-topic												
Climate Change	Climate change adaptation												
	Climate change mitigation												
	Energy												

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>(c) how the material risks and opportunities could reasonably be expected to have an influence on the undertaking's business model, strategy, cash flows, financial performance, financial position and its access to finance and its cost of capital, over the short, medium or long-term including:</p> <p>i. the reasonably expected time horizons for those effects; and</p> <p>ii. a description of where in its own operations or in its upstream and downstream value chain material risks and opportunities are concentrated;</p> <p>(d) the effects on the entity's undertaking's financial position, financial performance and cash flows for the reporting period (current financial effects), including information about how material impacts, risks and opportunities have affected the undertaking's most recently reported financial performance, financial position and cash flows; and the material impacts, risks and opportunities for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;</p> <p>(e) the anticipated financial effects on the undertaking's financial position, financial performance and cash flows over the short-, medium- and long-term. This shall include how the entity expects its financial position to change over the short, medium and long term, given its strategy to manage risks and opportunities, taking into consideration:</p> <p>i. its investment and disposal plans (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new</p>	<p>model, strategy, cash flows, financial performance, financial position and its access to finance and its cost of capital, over the short, medium or long-term including:</p> <p>i. the reasonably expected time horizons for those financial effects; and</p> <p>ii. a description of where in its own operations or in its upstream and downstream value chain material risks and opportunities are concentrated;</p> <p>(d) the effects on the entity's undertaking's financial position, financial performance and cash flows for the reporting period (current financial effects), including information about how material impacts and risks and opportunities have affected the undertaking's most recently reported financial performance, financial position and cash flows; and the material impacts and risks and opportunities for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;</p> <p>(e) the anticipated financial effects on the undertaking's financial position, financial performance and cash flows over the short-, medium- and long-term. This shall may include a brief description of how the entity expects its financial position to change over the short, medium and long term, given its strategy to manage risks and opportunities, taking into consideration:</p> <p>i. its investment and disposal plans (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements), including plans the undertaking is not contractually committed to; and</p>	<p>(e) how the material risks could reasonably be expected to have an influence on the undertaking's business model, strategy, cash flows, financial performance, financial position and its access to finance and its cost of capital, over the short, medium or long term including:</p> <p>i. the reasonably expected time horizons for those financial effects; and</p> <p>ii. a description of where in its own operations or in its upstream and downstream value chain material risks and opportunities are concentrated;</p> <p>(d) the effects on the entity's undertaking's financial position, financial performance and cash flows for the reporting period (current financial effects), including information about how material impacts and risks and opportunities have affected the undertaking's most recently reported financial performance, financial position and cash flows; and the material impacts and risks and opportunities for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;</p> <p>(e) the anticipated financial effects on the undertaking's financial position, financial performance and cash flows over the short-, medium- and long term. This shall may include a brief description of how the entity expects its financial position to change over the short, medium and long term, given its</p>	



*Building blocks (revised version) – Issues Paper*

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>business areas and asset retirements), including plans the undertaking is not contractually committed to; and</p> <p>ii. its planned sources of funding to implement its strategy.</p> <p>(f) information about the resilience of the undertaking's strategy and business model regarding its capacity to address its material impacts and risks and to take advantage of its material opportunities. The undertaking shall disclose a qualitative and, when applicable, a quantitative analysis of the resilience, including how the analysis was conducted and the time horizons that were applied as defined in ESRS 1 (see ESRS 1 chapter 6 Time horizons). When providing quantitative information, the undertaking may disclose single amounts or ranges;</p> <p>(g) changes to the material impacts, risks and opportunities compared to the previous reporting period; and</p> <p>(h) specification of those impacts, risks and opportunities that are covered by ESRS Disclosure Requirements as opposed to those covered by the undertaking using additional entity-specific disclosure.</p> <p>-----</p> <p>49. The undertaking may disclose the descriptive information required in paragraph 49 alongside the disclosures provided under the corresponding topical</p>	<p>ii. its planned sources of funding to implement its strategy.</p> <p><del>(f) information about the resilience of the undertaking's strategy and business model regarding its capacity to address its material impacts and risks and to take advantage of its material opportunities. The undertaking shall disclose a qualitative and, when applicable, a quantitative analysis of the resilience, including how the analysis was conducted and the time horizons that were applied as defined in ESRS 1 (see ESRS 1 chapter 6 Time horizons). When providing quantitative information, the undertaking may disclose single amounts or ranges;</del></p> <p>(f) changes to the material impacts <i>and risks and opportunities</i> compared to the previous reporting period; and</p> <p>(g) specification of those impacts <i>and risks and opportunities</i> that are covered by ESRS Disclosure Requirements <i>included in this [draft] ESRS</i> as opposed to those covered by the undertaking using additional entity-specific disclosure.</p> <p>-----</p> <p>36. The undertaking may disclose the descriptive information required in paragraph 35 alongside the disclosures provided under the corresponding [draft] topical <del>ESRS sections of this [draft] ESRS</del>. If the undertaking decides to do so, it shall still present a statement of its material impacts <i>and risks and opportunities</i> alongside its</p>	<p><del>strategy to manage risks and opportunities, taking into consideration:</del></p> <p>i. its investment and disposal plans (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements), including plans the undertaking is not contractually committed to; and</p> <p>ii. its planned sources of funding to implement its strategy.</p> <p>(f) changes to the material impacts <i>and risks and opportunities</i> compared to the previous reporting period; and</p> <p>(g) specification of those impacts <i>and risks and opportunities</i> that are covered by ESRS Disclosure Requirements <i>included in this [draft] ESRS</i> as opposed to those covered by the undertaking using additional entity-specific disclosure.</p> <p>-----</p>	

*Building blocks (revised version) – Issues Paper*

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>ESRS. If the undertaking decides to do so, it shall still present a statement of its material impacts, risks and opportunities alongside its disclosures prepared under this chapter of ESRS 2.</p>	<p>disclosures prepared under this chapter of <i>section 2 of this [draft] ESRS 2.</i></p>	<p><del>36. The undertaking may disclose the descriptive information required in paragraph 35 alongside the disclosures provided under the corresponding [draft] topical ESRS sections of this [draft] ESRS. If the undertaking decides to do so, it shall still present a statement of its material impacts and risks and opportunities alongside its disclosures prepared under this chapter of section 2 of this [draft] ESRS 2.</del></p>	
<p><b>ESRS 1 7.8 Reporting on opportunities</b></p> <p>108. When reporting on opportunities, the disclosure should consist of descriptive information allowing the reader to understand the opportunity for the undertaking or the entire sector. When reporting on opportunities, the undertaking shall consider the materiality of the information to be disclosed. In this context, it shall consider, among other factors:</p> <p>(a) whether the opportunity is currently being pursued and is incorporated in its general strategy, as opposed to a general opportunity for the undertaking or the sector; and</p> <p>(b) whether the inclusion of quantitative measures of financial effects is appropriate, taking into account the number of assumptions that it could require and consequential uncertainty.</p>	<p><b>Voluntary Disclosure SBM-4 – Material opportunities (LSME optional component)</b></p> <p><i>37. The undertaking may disclose its material opportunities. These are sustainability-related financial opportunities that have or are likely to have financial effects. The undertaking should not report on opportunities for which the undertaking has not put in place or does not plan to put in place concrete actions to pursue them, accompanied by appropriate resources.</i></p> <p><i>38. Per each material opportunity disclosed, the undertaking may include:</i></p> <p><i>(a) a description of the opportunity, how it originates, the sustainability matter to which it is linked and its expected time horizon;</i></p> <p><i>(b) how it results in financial effects for the undertaking; and</i></p> <p><i>(c) the actions that the undertaking has put or plans to put in place to pursue the opportunity, including the resources that have been mobilised.</i></p> <p><i>39. Quantitative financial effects deriving from opportunities should be disclosed only when they meet the qualitative characteristics of quality, including reliability and should be accompanied by an illustration of the</i></p>		<p>– As agreed during the TEG meeting, opportunities are disclosed on a voluntary basis</p>



Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
	<p><i>methodology for calculation and main assumptions used.</i></p> <p><b>Positive impacts are disclosed on voluntary basis</b></p>		
<p><b>IRO-1 - Description of the process to identify and assess material impacts, risks and opportunities</b></p> <p>51. The undertaking shall disclose its process to identify its impacts, risks and opportunities and to assess which ones are material.</p> <p>-----</p> <p>52. The objective of this Disclosure Requirement is to provide an understanding of the process through which the undertaking identifies impacts, risks and opportunities and assesses their materiality, as the basis for determining the disclosures in its sustainability reporting (see ESRS 1 chapter 3 and its related Application Requirements, which set out requirements and principles regarding the process to identify and assess material impacts, risks and opportunities based on the principle of double materiality).</p> <p>-----</p> <p>53. The undertaking shall disclose the following information:</p> <p>a) a description of the methodologies and assumptions applied in the described process;</p> <p>b) an overview of the process to identify, assess and prioritise the undertaking’s potential and actual impacts on people and the environment, informed by the undertaking’s due diligence process,</p>	<p><b>IR-1 - Description of the processes to identify and assess material impacts and risks</b></p> <p><b>(Plugged in component)</b></p> <p>41. The undertaking shall <del>disclose</del> provide a <i>brief description</i> of its process to identify its impacts <del>and risks and opportunities</del> and to assess which ones are material.</p> <p>-----</p> <p>42. The objective of this Disclosure Requirement is to provide an <del>understanding</del> <i>overview</i> of the process through which the undertaking identifies impacts <del>and risks and opportunities</del> and assesses their materiality, as the basis for determining the disclosures in its sustainability reporting (see <i>Section 1 of this [draft] ESRS</i> chapter 3 and its related Application Requirements, which set out requirements and principles regarding the process to identify and assess material impacts <del>and risks and opportunities</del> based on the principle of double materiality).</p> <p>-----</p> <p>43. The undertaking shall disclose the following information:</p> <p>a) <del>a description of the methodologies and assumptions applied in the described process;</del></p> <p>b) an overview of the process to identify, assess and prioritise the undertaking’s potential and actual <i>negative</i> impacts on people and the environment <i>based on their relative severity and likelihood, (see [draft] section 1, chapter 3.4 Impact materiality),</i> informed by the undertaking’s due diligence</p>		<ul style="list-style-type: none"> <li>- Centralised disclosure on IR-1</li> <li>- References to positive impacts and opportunities have been deleted</li> </ul>

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>including an explanation of whether and how the process:</p> <ul style="list-style-type: none"> <li>i) focusses on specific issues due to heightened risk of adverse impacts;</li> <li>ii) considers the impacts with which the undertaking is involved through its own operations or as a result of its business relationships;</li> <li>iii) includes consultation with affected stakeholders to understand how they may be impacted and with external experts;</li> <li>iv) prioritises negative impacts based on their relative severity and likelihood, (see ESRS 1 section 3.4 Impact materiality) and – if applicable – positive impacts on their relative scale, scope and likelihood, and determines which sustainability matters are material for reporting purposes (including the qualitative or quantitative thresholds and other criteria used as prescribed by ESRS 1 section 3.4 Impact materiality); and</li> </ul> <p>c) an overview of the process used to identify, assess and prioritise risks and opportunities that have or may have financial effects. The disclosure shall include:</p> <ul style="list-style-type: none"> <li>i) how the undertaking assesses the likelihood, magnitude, and nature of effects of the identified risk and opportunities (such as the qualitative or quantitative thresholds and other criteria used as prescribed by ESRS 1 section 3.3 Financial materiality);</li> <li>ii) how the undertaking prioritises sustainability-related risks relative to other types of risks, including its use of risk-assessment tools;</li> </ul>	<p><del>process.</del><i>The undertaking may also include an explanation of whether and how the process:</i></p> <ul style="list-style-type: none"> <li>i) focusses on specific issues due to heightened risk of adverse impacts;</li> <li>ii) <del>considers</del> the impacts with which the undertaking is involved through its own operations or as a result of its business relationships;</li> <li>iii) includes consultation with affected stakeholders to understand how they may be impacted and with external experts;</li> <li>iv) prioritises negative impacts based on their relative severity and likelihood, (see Section 1 par, 3.4 Impact materiality) <del>and – if applicable – positive impacts on their relative scale, scope and likelihood,</del> and determines which sustainability matters are material for reporting purposes (including the qualitative or quantitative thresholds and other criteria used as prescribed by Section 1 par, 3.4 Impact materiality); <del>and</del></li> <li>c) an overview of the process used to identify, assess and prioritise risks <del>and opportunities</del> that have or may have financial effects (see [draft] section 1, chapter 3.5 Financial materiality). <del>The disclosure shall include: The undertaking may also include a description on</del></li> <li>i)-how the undertaking assesses the likelihood, magnitude, and nature of effects of the identified risk <del>and opportunities (such as the qualitative or quantitative thresholds and other criteria used as prescribed by ESRS 1 section 3.3 Financial materiality);</del></li> <li>ii) how the undertaking prioritises sustainability-related risks relative to other types of risks, including its use of risk-assessment tools;</li> <li><del>d) a description of the decision-making process and the related internal control procedures;</del></li> </ul>		

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>d) a description of the decision-making process and the related internal control procedures;</p> <p>e) the extent to which and how the process to identify, assess and manage impacts and risks is integrated into the undertaking's overall risk management process and used to evaluate the undertaking's overall risk profile and risk management processes;</p> <p>f) the extent to which and how the process to identify, assess and manage opportunities is integrated into the undertaking's overall management process where applicable;</p> <p>g) the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions);and</p> <p>h) whether and how the process has changed compared to the prior reporting period, when the process(es) was/were modified for the last time and future revision dates of the materiality assessment.</p>	<p><del>e) the extent to which and how the process to identify, assess and manage impacts and risks is integrated into the undertaking's overall risk management process and used to evaluate the undertaking's overall risk profile and risk management processes;</del></p> <p><del>f) the extent to which and how the process to identify, assess and manage opportunities is integrated into the undertaking's overall management process where applicable;</del></p> <p>g) the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions);and</p> <p>h) whether and how the process has changed compared to the prior reporting period, when the process(es) was/were modified for the last time and future revision dates of the materiality assessment .</p> <p><i>45. The undertaking shall describe the processes to identify and assess material impacts and risks (disclosure on opportunities is on a voluntary basis only) in relation to sustainability matters (a list of sustainability matters is defined in Section 1 AR 15). In particular, for the following Environmental matters</i></p> <p><i>(a) Climate Change (E1), including:</i></p> <p><i>i. impacts on climate change, in particular, the undertaking's GHG emissions (as required by [draft] Section 3, Disclosure Requirement E1-3);</i></p> <p><i>ii. climate-related physical risks (as required by [draft] Section 3, Disclosure Requirement E-1-5)</i></p> <p><b>[centralised all IRO 1 from topical ESRS]</b></p> <p><i>46. In describing the processes to identify and assess material impacts and risks, the</i></p>		

*Building blocks (revised version) – Issues Paper*

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
	<p><i>undertaking may include such disclosure in a centralised section of the sustainability report or divide it and present the relevant disclosure in each topical section of the sustainability report.</i></p>		
<p><b>IRO-2 – Disclosure Requirements in ESRS covered by the undertaking’s sustainability statement</b>                      54. The undertaking shall report on the Disclosure Requirements complied with in its sustainability statements.                      -----                      55. The objective of this Disclosure Requirement is to provide an understanding of the Disclosure Requirements included in the undertaking’s sustainability statement and of the topics that have been omitted as not material, as a result of the materiality assessment.                      -----                      56. The undertaking shall include a list of the Disclosure Requirements complied with in preparing the sustainability statement, following the outcome of the materiality assessment (see ESRS 1 chapter 3), including the page numbers and/or paragraphs where the related disclosures are located in the sustainability statement. This may be presented as a content index.                      -----                      57. When all the Disclosure Requirements in a topical ESRS are omitted because the topic is assessed not to be material for the undertaking, the undertaking may provide a brief explanation of the conclusions of its materiality assessment for the topic in question.                      -----</p>	<p><b>IR-2 – Topics covered by the undertaking’s sustainability statements (Plugged in component)</b>                      48. The undertaking shall report on the Disclosure Requirements complied with in its sustainability statements                      -----                      49. The objective of this Disclosure Requirement is to provide an understanding of the Disclosure Requirements included in the undertaking’s sustainability statement and of the topics that have been omitted as not material, as a result of the materiality assessment.                      -----                      50. The undertaking shall include a list of the Disclosure Requirements complied with in preparing the sustainability statement, following the outcome of the materiality assessment (see Section 1 of this [draft] ESRS, chapter 3 Double materiality <i>as the basis for sustainability disclosures</i>), including the page numbers and/or paragraphs where the related disclosures are located in the sustainability statements. This may be presented as a content index.                      -----                      51. When all the Disclosure Requirements in a [draft] topical section are omitted as the topic is assessed not to be material for the undertaking, the undertaking shall report a brief explanation of the conclusions of its materiality assessment for the topic in question.                      -----</p>		

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>58. The undertaking shall provide an explanation of how it has determined the material information to be disclosed in relation to the impacts, risks and opportunities that it has assessed to be material, including the use of thresholds and/or how it has implemented the criteria in ESRS 1 section 3.2 Material matters and materiality of information</p>	<p>58. The undertaking shall provide an explanation of how it has determined the material information to be disclosed in relation to the impacts <i>and</i> risks <del>and opportunities</del> that it has assessed to be material, including the use of thresholds and/or how it has implemented the criteria in Section 1 chapter 3.2 Material matters and materiality of information</p>		
<p><b>4.2 Minimum disclosure requirements on policies and actions</b></p> <p>59. This section sets out minimum disclosure requirements to be included when the undertaking discloses information on its policies and actions to prevent, mitigate and remediate actual and potential material impacts, to address risks and/or to pursue material opportunities (collectively, to “manage material sustainability matters”). They shall be applied together with the Disclosure Requirements, including Application Requirements, provided in the relevant topical and/or sector-specific ESRS. <del>They shall also be applied when the</del> --- undertaking prepares entity-specific disclosures.</p> <p>60. The corresponding disclosures shall be located alongside disclosures prescribed by the relevant ESRS. When a single policy or same actions address several interconnected sustainability matters, the undertaking may disclose the required information in its reporting under one topical ESRS and cross reference to it in its reporting under other topical ESRS.</p> <p>61. If the undertaking cannot disclose the information on policies and actions required under relevant ESRS, because it has not adopted policies and/or actions with</p>	<p><b>4.2 Minimum disclosure requirements on policies and actions</b></p> <p>59. This section sets out minimum disclosure requirements to be included when the undertaking discloses information on its policies and actions to prevent, mitigate and remediate actual and potential material impacts, to address risks and/or to pursue material opportunities (collectively, to “manage material sustainability matters”). They shall be applied together with the Disclosure Requirements, including Application Requirements, provided in the relevant topical and/or sector-specific ESRS. <del>They shall also be applied when the</del> --- undertaking prepares entity-specific disclosures.</p> <p>60. The corresponding disclosures shall be located alongside disclosures prescribed by the relevant ESRS. When a single policy or same actions address several interconnected sustainability matters, the undertaking may disclose the required information in its reporting under one topical ESRS and cross reference to it in its reporting under other topical ESRS.</p> <p>61. If the undertaking cannot disclose the information on policies and actions required under relevant ESRS, because it has not adopted policies and/or actions with</p>		<p>- MDR included in ARs</p>

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
reference to the specific sustainability matter concerned, it shall disclose this to be the case, and provide reasons for not having adopted policies and/or actions. The undertaking may report a timeframe in which it aims to adopt them.	<del>reference to the specific sustainability matter concerned, it shall disclose this to be the case, and provide reasons for not having adopted policies and/or actions. The undertaking may report a timeframe in which it aims to adopt them.</del>		
<p><b>Policies MDR-P – Policies adopted to manage material sustainability matters</b></p> <p>62. The undertaking shall apply the minimum disclosure requirements defined in this provision when it discloses the policies it has in place with regard to each <del>sustainability matter identified as material.</del></p> <p>63. The objective of this Minimum Disclosure Requirement is to provide an understanding of the policies that the undertaking has in place to prevent, mitigate and remediate actual and potential impacts, to address risks and to pursue opportunities.</p>	<p><b>IR-3 – Policies and actions in relation to sustainability matters (Centralised)</b></p> <p>52. The undertaking shall disclose information on its policies and actions in relation to its material sustainability matters.</p> <p>-----</p> <p>53. The objective of this Disclosure Requirement is to provide an understanding of the:</p> <p>(a) Policies that the undertaking has in place (as defined in Section 1 of this [draft] ESRS, chapter 1.5 Application of the Disclosure Contents defined in Section 2 to address the identification, assessment, management and/or remediation of material sustainability topics;</p> <p>(b) Key actions taken and/or planned to address material impacts and risks, and where applicable achieve the objectives and targets of related policies;</p> <p>54. When disclosing information on policies and actions, subject to paragraphs 31 and 32 of Section 1 of this [draft] ESRS, the undertaking shall disclose other information in relation to a material sustainability matter as defined in the Application Requirements IR-3 xxx, which is presented separately by sustainability topic.</p> <p>In particular, for policies and actions, some information (summarised in Table of AR XX) are related to Appendix B: List of datapoints in cross-cutting and topical standards that are required by EU law of this Section.</p>	<p><b>DR 6 – Material sustainability subtopics and their interaction with strategy</b></p> <p>35 The undertaking shall disclose whether it has a sustainability strategy and/or targets and what it has achieved so far.</p> <p><del>36 The objective of this Disclosure Requirement is to provide an understanding whether the strategy of the undertaking is affected by impacts, risks or opportunities related to sustainability matters and how they influence the undertaking's operations. The strategy can be affected/improved through time depending on the targets gradually achieved. The strategy can be designed and implemented within different time frames.</del></p> <p>37 The disclosure shall include:</p> <p>(a) whether the strategy is affected by material <b>impacts, risks or opportunities related to sustainability topics and subtopics matters;</b> and</p> <p>(b) if so, regarding these <b>sustainability topics and subtopics material impacts, risks or opportunities:</b></p> <p>i. a listing of them and a description of how they affect the strategy;</p> <p>ii. if applicable, a description of the policies defined to address them. When describing its policies the undertaking shall consider: the general objectives and which material topics and subtopics the policy is relating to; its scope in terms of activities, value chain, geographies and, if relevant, affected stakeholder groups; a reference, if applicable,</p>	<ul style="list-style-type: none"> <li>- As shared during the last TEG meeting, LSME includes a centralised disclosure for policies and actions. In AR has been included a table with the EU Regulation datapoints</li> <li>- MDR included in AR as “shall consider” (to seek standardisation in LSME disclosures)</li> <li>- In VSME proposal             <ul style="list-style-type: none"> <li>i. main simplification is related to the disclosure of sustainability topics and subtopics instead of IRs</li> <li>ii. it has been included a simplified DR with policies, actions and targets and the related MDR</li> </ul> </li> </ul>

*Building blocks (revised version) – Issues Paper*

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>-----</p> <p>64. The undertaking shall disclose information about policies adopted to</p>	<p>55. If the undertaking cannot disclose the information on policies and actions required under this section of this [draft] ESRS, because it has not adopted policies and/or actions with reference to the specific material sustainability matter concerned, it shall disclose this to be the case, and provide reasons for not having adopted policies and/or actions.</p> <p><b>APPLICATION REQUIREMENTS</b></p> <p><b>IR-3 – Policies and actions in relation to sustainability matters</b></p> <p>AR 33. If the undertaking has not adopted policies and/or implemented actions with reference to a material sustainability matter, the undertaking may report a timeframe in which it aims to adopt/implement them, where appropriate.</p> <p>AR 34. In disclosing the information on policies and actions, the undertaking may include such a disclosure in a centralised section or present the relevant disclosure in each sustainability topical section.</p> <p>AR 35. A single policy may apply to several material sustainability matters, including matters addressed by more than one topical section of this [draft] ESRS. For example, if a single policy covers both an environmental matter and a social matter, the undertaking may report on the policy in the environmental section of its sustainability statements. In this case, the disclosure to be reported in the social section is a cross-reference to the environmental section where the policy is disclosed. Equally, a policy may be reported in the social section with a cross-reference to the environmental section.</p>	<p><i>to the third-party standards or initiatives the undertaking commits to respect through the implementation of the policy;</i></p> <p><i>iii. if applicable a description of the actions taken to address them. When describing its actions the undertaking shall consider: the list of key actions taken in the reporting year and planned for the future, the scope of the key actions (i.e., coverage in terms of activities, value chain geographies and, where applicable, affected stakeholder groups); the time horizons under which the undertaking intends to complete each key action.</i></p> <p><i>In particular, if material, it shall disclose the actions taken in the reporting period to improve its energy efficiency and to lower related carbon emissions and the related possible implications in terms of risks and opportunities.</i></p> <p><i>iv. if applicable, a description of the metrics used and targets set for improvement; and</i></p> <p><i>v. if ii and /or iii and/or vi are not applicable, a statement to the fact that policies do not exist; actions have not been taken; metrics are not used; and/or targets have not been set.</i></p>	



Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>manage material sustainability matters. The disclosure shall include the following information:</p> <p>a) a description of the key contents of the policy, including its general objectives and which material impacts, risks or opportunities the policy relates to and the process for monitoring;</p> <p>b) a description of the scope of the policy, or of its exclusions, in terms of activities, value chain, geographies and if relevant, affected stakeholder groups;</p> <p>c) the most senior level in the undertaking's organisation that is accountable for the implementation of the policy;</p> <p>d) a reference, if relevant, to the third-party standards or initiatives the undertaking commits to respect through the implementation of the policy;</p> <p>e) if relevant, a description of the consideration given to the interests of key stakeholders in setting the policy; and</p> <p>f) if relevant, whether and how the undertaking makes the policy available to potentially affected stakeholders, and stakeholders who need to help implement it.</p> <p><b>Actions MDR-A – Actions and resources in relation to material sustainability matters</b></p> <p>65. The undertaking shall apply the requirements for the content of disclosures in this provision when it describes the actions through which it manages each material sustainability matter including</p>	<p>-----  <del>AR 36. The undertaking shall disclose information about policies adopted to manage material sustainability matters. The disclosure shall include the following information</del> When providing disclosures on policies, the undertaking shall consider the following information:</p> <p>a) a description of key contents of the policy, including its general objectives and which material impacts or risks the policy is relating to;</p> <p>b) a description of the scope of the policy in terms of activities, value chain, geographies and, if relevant, affected stakeholder groups;</p> <p>c) the most senior level in the undertaking's organisation that is accountable for the implementation of the policy;</p> <p>d) a reference, if relevant, to the third-party standards or initiatives the undertaking commits to respect through the implementation of the policy;</p> <p>e) if relevant, a description of the consideration given to the interest of key stakeholders in setting the policy; and</p> <p>f) if relevant, whether and how the undertaking makes the policy available to potentially affected stakeholders, and stakeholders who need to help implement it.</p> <p>-----</p>		



Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>action plans and resources allocated and/or planned.</p> <p>-----</p> <p>66. The objective of this Minimum Disclosure Requirement is to provide an understanding of the key actions taken and/or planned to prevent, mitigate and remediate actual and potential impacts, and to address risks and opportunities, and where applicable achieve the objectives and targets of related policies.</p> <p>-----</p> <p>67. Where the implementation of a policy requires actions, or a comprehensive action plan, to achieve its objectives, as well as when actions are implemented without a specific policy, the undertaking shall disclose the following information:</p> <p>a) the list of key actions taken in the reporting year and planned for the future, their expected outcomes and, where relevant, how their implementation contributes to the achievement of policy objectives and targets;</p> <p>b) the scope of the key actions (i.e., coverage in terms of activities, value chain geographies and, where applicable, affected stakeholder groups);</p> <p>c) the time horizons under which the undertaking intends to complete each key action;</p> <p>d) if applicable, key actions taken (along with results) to provide for and cooperate in or support the provision of remedy for those harmed by actual material impacts;</p> <p>e) if applicable, quantitative and qualitative information regarding the progress of actions or action plans disclosed in prior periods</p>	<p>AR 37. When providing disclosures on actions, the undertaking shall consider the following information:</p> <p>-----</p> <p>a) the list of key actions taken in the reporting year and planned for the future, and their expected outcomes <del>and, where relevant, how their implementation contributes to the achievement of policy objectives and targets;</del></p> <p>b) the scope of the key actions (i.e., coverage in terms of activities, value chain geographies and, where applicable, affected stakeholder groups);</p> <p>c) the time horizons under which the undertaking intends to complete each key action;</p> <p>d) if applicable, key actions taken (along with results) to provide for and cooperate in or</p>		

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>AR 21. Key actions in the context of this Minimum Disclosure Requirement are those actions that materially contribute to achieving the undertaking’s objectives in addressing material impacts, risks and opportunities. For reasons of understandability, key actions may be aggregated where appropriate.</p> <p>68. Where the implementation of an action plan requires significant operational expenditures (Opex) and/or capital expenditures (Capex) the undertaking shall:</p> <p>a) describe the type of current and future financial and other resources allocated to the action plan, including if applicable, the relevant terms of sustainable finance instruments, such as green bonds, social bonds and green loans, the environmental or social objectives, and whether the ability to implement the actions or action plan depends on specific preconditions, e.g., granting of financial support or public policy and market developments;</p> <p>b) provide the amount of current financial resources and explain how they relate to the most relevant amounts presented in the financial statements; and</p> <p>c) provide the amount of future financial resources.</p>	<p>support the provision of remedy for those harmed by actual material impacts;</p> <p>e) if applicable, quantitative and qualitative information regarding the progress of actions or action plans disclosed in prior periods.</p> <p>-----</p> <p>AR 38. Key actions in the context of AR. 37 are those actions that materially contribute to achieving the undertakings objectives in addressing material impacts <i>and</i> risks <del>and opportunities</del>. For reasons of understandability, key actions may be aggregated where appropriate.</p> <p>-----</p> <p>AR 39. Where the implementation of an action plan requires significant operational expenditures (Opex) and/or capital expenditures (Capex) the undertaking <del>shall</del> <i>may</i>:</p> <p>a) describe the type of current and future financial and other resources allocated to the action plan, <del>including if applicable, the relevant terms of sustainable finance instruments, such as green bonds, social bonds and green loans, the environmental or social objectives, and whether the ability to implement the actions or action plan depends on specific preconditions, e.g., granting of financial support or public policy and market developments;</del></p> <p>b) provide the amount of current financial resources and explain how they relate to the most relevant amounts presented in the financial statements; and</p> <p>c) provide the amount of future financial resources.</p>		

*Building blocks (revised version) – Issues Paper*

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales										
	<p>b) provide complementary explanatory information, where the ability to implement the actions or action plan depends on specific preconditions, e.g., granting of financial support or public policy and market developments; and</p> <p>c) explain how significant monetary amounts relate to the most relevant amounts presented in the financial statements</p> <p><b>CENTRALISED DISCLOSURES FOR EU DATAPPOINTS AND OTHER DRs FROM TOPICAL ESRS</b></p> <p>AR 41. When disclosing the information required under paragraphs 54 a) on a material sustainability topic, as a result of its materiality assessment, the undertaking shall disclose the information reported in the table below.</p> <p>In particular:</p> <table border="1" data-bbox="584 815 1048 1046"> <thead> <tr> <th>ID</th> <th>Application Requirement</th> <th>Sustainability topic</th> <th>Policies – P Actions – A</th> <th>EU related Data Points</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>For own workforce, value chain workers, affected communities and consumers and end-users, the undertaking shall: L. describe processes and mechanisms to monitor compliance with the UN Global Compact principles and the OECD Guidelines for Multinational enterprises. In its disclosure it shall focus on those matters that are material as well as the general approach in relation to: 1. respect for the human rights, including labour rights of workers, human rights of communities, and indigenous peoples, human rights of consumers and/or end-users; 2. engagement with affected stakeholders; and 3. measures to provide and/or enable remedy for human rights impacts</td> <td>Own workforce  Workers in the value chain  Affected communities  Consumers and end-users</td> <td>P</td> <td>SFDR Tab. 1</td> </tr> </tbody> </table>	ID	Application Requirement	Sustainability topic	Policies – P Actions – A	EU related Data Points	1	For own workforce, value chain workers, affected communities and consumers and end-users, the undertaking shall: L. describe processes and mechanisms to monitor compliance with the UN Global Compact principles and the OECD Guidelines for Multinational enterprises. In its disclosure it shall focus on those matters that are material as well as the general approach in relation to: 1. respect for the human rights, including labour rights of workers, human rights of communities, and indigenous peoples, human rights of consumers and/or end-users; 2. engagement with affected stakeholders; and 3. measures to provide and/or enable remedy for human rights impacts	Own workforce  Workers in the value chain  Affected communities  Consumers and end-users	P	SFDR Tab. 1		
ID	Application Requirement	Sustainability topic	Policies – P Actions – A	EU related Data Points									
1	For own workforce, value chain workers, affected communities and consumers and end-users, the undertaking shall: L. describe processes and mechanisms to monitor compliance with the UN Global Compact principles and the OECD Guidelines for Multinational enterprises. In its disclosure it shall focus on those matters that are material as well as the general approach in relation to: 1. respect for the human rights, including labour rights of workers, human rights of communities, and indigenous peoples, human rights of consumers and/or end-users; 2. engagement with affected stakeholders; and 3. measures to provide and/or enable remedy for human rights impacts	Own workforce  Workers in the value chain  Affected communities  Consumers and end-users	P	SFDR Tab. 1									
<p><b>Targets MDR-T – Tracking effectiveness of policies and actions through targets</b></p> <p>77. The undertaking shall apply the requirements for the content of disclosures in this provision when it discloses information about the targets it has set with regard to each material sustainability matter.</p> <p>-----</p>	<p><b>IR-4 – Targets in relation to sustainability matters (LSME “report if you have” pugged in component)</b></p> <p>56. <i>When the undertaking is monitoring the effectiveness of its actions to address a material sustainability matter through targets, it shall disclose information about the targets it has in place.</i></p> <p>-----</p>		<ul style="list-style-type: none"> <li>- As shared with SR TEG, targets are disclosed only when the undertaking has set them</li> <li>- MDR included in AR (to seek standardisation in LSME disclosures) . The proposal is including only contents have been ranked as most relevant by SR TEG</li> </ul>										

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales										
<p>78. The objective of this Minimum Disclosure Requirement is to provide for each material sustainability matter an understanding of:</p> <p>a) whether and how the undertaking tracks the effectiveness of its actions to address material impacts, risks and opportunities, including the metrics it uses to do so;</p> <p>b) measurable time-bound outcome-oriented targets set by the undertaking to meet the policy’s objectives, defined in terms of expected results for people, the environment or the undertaking regarding material impacts, risks and opportunities;</p> <p>c) the overall progress towards the adopted targets over time;</p> <p>d) in the case that the undertaking has not set measurable time-bound outcome-oriented targets, whether and how it nevertheless tracks the effectiveness of its actions to address material impacts, risks and opportunities and measures the progress in achieving its policy objectives; and</p> <p>e) whether and how stakeholders have been involved in target setting for each material sustainability matter.</p> <p>79. The undertaking shall disclose the measurable, outcome-oriented and time-bound targets on material sustainability matters it has set to assess progress. For each target, the disclosure shall include the following information:</p> <p>a) a description of the relationship of the target to the policy objectives;</p> <p>b) the defined target level to be achieved, including, where applicable, whether the</p>	<p>57. The objective of this Minimum Disclosure Requirement is to <i>provide an understanding on whether and how the undertaking has set measurable time-oriented targets to monitor progresses overtime and track effectiveness of its actions in relation to material sustainability impacts and risks.</i></p> <p>58. <i>The undertaking shall disclose whether it has set targets with regards to each material sustainability matter.</i></p> <p>59. <i>When the undertaking has set targets on a material sustainability matter, it shall consider the related information defined in the Application Requirements Ir xxx.</i></p> <p><b>AR IR-5 – Targets in relation to sustainability matters</b></p> <p>AR 121. When disclosing the information on targets, required under paragraphs 50, the undertaking shall consider the information reported in the table below:</p> <table border="1" data-bbox="584 842 1050 917"> <thead> <tr> <th>ID</th> <th>Application Requirement</th> <th>Sustainability topic</th> <th>Targets - T</th> <th>EU Data Point</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>The undertaking <b>shall consider to</b> disclose its GHG emission reduction targets for scope 1, 2 and 3</td> <td>climate change</td> <td>T</td> <td>SFDR Tab. 2 Climate benc regulation, /</td> </tr> </tbody> </table> <p>AR 122. <del>The undertaking shall disclose the measurable, outcome-oriented and time-bound targets on material sustainability matters it has set to assess progress. For each target, the disclosure shall include the following information</del> When disclosing its targets the undertaking <i>shall consider</i>:</p> <p>a) <del>a description of</del> the relationships of the target to the IRO or policy objectives;</p>	ID	Application Requirement	Sustainability topic	Targets - T	EU Data Point	1	The undertaking <b>shall consider to</b> disclose its GHG emission reduction targets for scope 1, 2 and 3	climate change	T	SFDR Tab. 2 Climate benc regulation, /		
ID	Application Requirement	Sustainability topic	Targets - T	EU Data Point									
1	The undertaking <b>shall consider to</b> disclose its GHG emission reduction targets for scope 1, 2 and 3	climate change	T	SFDR Tab. 2 Climate benc regulation, /									

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>target is absolute or relative and in which unit it is measured;</p> <p>c) the scope of the target, including the undertaking's activities and/or its value chain where applicable and geographical boundaries;</p> <p>d) the baseline value and base year from which progress is measured;</p> <p>e) the period to which the target applies and if applicable, any milestones or interim targets;</p> <p>f) the methodologies and significant assumptions used to define targets, including where applicable, the selected scenario, data sources, alignment with national, EU or international policy goals and how the targets consider the wider context of sustainable development and/or local situation in which impacts take place;</p> <p>g) whether the undertaking's targets related to environmental matters are based on conclusive scientific evidence;</p> <p>h) whether and how stakeholders have been involved in target setting for each material sustainability matter;</p> <p>i) any changes in targets and corresponding metrics or underlying measurement methodologies, significant assumptions, limitations, sources and processes to collect data adopted within the defined time horizon. This includes an explanation of the rationale for those changes and their effect on comparability (see Disclosure Requirement BP-2 Disclosures in relation to specific circumstances of this Standard); and</p>	<p>b) the defined level of ambition (<del>quantitative and qualitative depending on the nature of the target</del>) to be achieved, including, where applicable, whether the target is absolute or relative and in which unit it is measured;</p> <p>c) the scope of the target (<i>operations, value chain and geographical boundaries or activities</i>);</p> <p>d) <i>if applicable</i>, the baseline value and base year from which progress is measured;</p> <p>e) the period to which the target applies and if applicable, any milestones or interim targets <del>The timeframe to achieve the target;</del></p> <p>f) the methodologies and significant assumptions used to define targets, including where applicable, the selected scenario, data sources, alignment with science-based methodologies, and national, EU or international policy goals; <del>and how the targets consider the wider context of sustainable development and/or local situation in which impacts take place</del></p> <p>g) <del>whether the undertaking's targets related to environmental matters are based on conclusive scientific evidence;</del></p> <p>h) <del>whether and how stakeholders have been involved in target setting for each material sustainability matter;</del></p> <p>g) any changes in targets <del>and corresponding metrics or underlying measurement methodologies</del> <i>and</i> significant assumptions, <del>limitations, sources and processes to collect data</del> <i>together</i> This includes <del>with</del> an explanation of the rationale for those changes and their effect on comparability (<del>see Disclosure</del></p>		

Building blocks (revised version) – Issues Paper

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
<p>j) the performance against its disclosed targets, including information on how the target is monitored and reviewed and the metrics used, whether the progress is in line with what had been initially planned, and an analysis of trends or significant changes in the performance of the undertaking towards achieving the target.</p> <p>80. If the undertaking has not set any measurable outcome-oriented targets:</p> <p>a) it may disclose whether such targets will be set and the timeframe for setting them, or the reasons why the undertaking does not plan to set such targets;</p> <p>b) it shall disclose whether it nevertheless tracks the effectiveness of its policies and actions in relation to the material sustainability-related impact, risk and opportunity, and if so:</p> <p>i) any processes through which it does so;</p> <p>ii) the defined level of ambition to be achieved and any qualitative or quantitative indicators it uses to evaluate progress, including the base period from which progress is measured.</p>	<p><del>Requirement BP 2 Disclosures in relation to specific circumstances of this Standard); and</del></p> <p>h) the overall progress towards the defined target.</p> <p><del>the performance against its disclosed targets, including information on how the target is monitored and reviewed and the metrics used, whether the progress is in line with what had been initially planned, and an analysis of trends or significant changes in the performance of the undertaking towards achieving the target.</del></p> <p><del>80. If the undertaking has not set any measurable outcome-oriented targets:</del></p> <p><del>a) it may disclose whether such targets will be set and the timeframe for setting them, or the</del></p> <p><del>b) it shall disclose whether it nevertheless tracks the effectiveness of its policies and actions in relation to the material sustainability-related impact, risk and opportunity, and if so:</del></p> <p><del>i) any processes through which it does so;</del></p> <p><del>ii) the defined level of ambition to be achieved and any qualitative or quantitative indicators it uses to evaluate progress, including the base period from which progress is measured.</del></p>		
Metrics from topical standards	EU law module + Value Chain Cap	Cluster 8 metrics (but using Set 1 language – no additional datapoints)	

## General requirements

SET 1 (version June 2023)	[draft] LSME ESRS	[draft] VSME (Secretariat version cluster8)	Rationales
Qualitative characteristics of information	Same approach as for Set 1 (adjustments made to adapt the content to the fact that “positive impacts” and “opportunities” are disclosed on a voluntary basis	Simplified in Par. “Quality of disclosures and comparative information” (same qualitative characteristics)	[draft] LSME the approach is to keep the same content when concepts and requirements are the same in substance.  [draft] VSME content has been simplified keeping the same characteristics
Double materiality	Same approach as for Set 1	Simplified in Par. “Materiality”	Double materiality is the key principle
Materiality of information – Entity specific	Same approach as for Set 1	Not included	[draft] LSME the approach is to keep the same content when concepts and requirements are the same in substance.
Level of disaggregation	Same approach as for Set 1	Not included	[draft] LSME the approach is to keep the same content when concepts and requirements are the same in substance.
Due diligence	Report if you have” additional component	Not included	Not an explicit content of CSRD for LSMEs
Time horizons	Same approach as for Set 1	Not included	
Presenting comparative information	Exemption when it is not possible to adjust comparative information with reasonable effort	Same as for LSME	
Reporting errors in prior periods	Reporting errors in prior periods: exemption to restating the comparative amounts when it is not possible with reasonable effort.	Same as for LSME	

### Questions for EFRAG SRB TEG/SRB

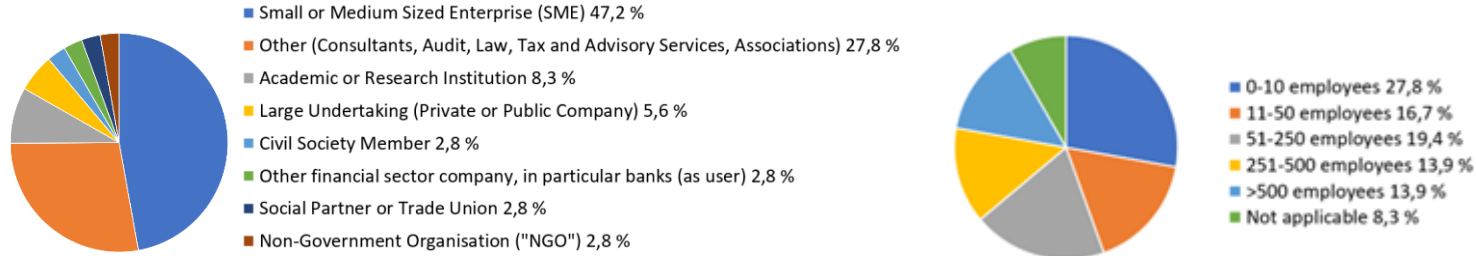
1. Does EFRAG SRB agree with the proposed building block approach?
2. Does EFRAG SRB agree to apply the same flexibility on time horizon for LSME? (deleting the requirement on disclosing the rationales) Would this be a simplification?
3. Does EFRAG SRB agree to include the MDR for policies, actions and targets in LSME ARs as a “shall consider”?
4. Does EFRAG SRB agree to simplify the VSME disclosure focusing on material sustainability topics and subtopics, instead of IRs (see [draft] DR 3 and 4)?
5. Does EFRAG SRB agree with the approach taken on entity-specific disclosure to ensure equal opportunities for LSMES?



Appendix 1 – Results questionnaire VSME Community (workshop 31 January)

This document is an executive summary of the responses collected from the VSME Community Questionnaire on the 31 January 2023.

1. Breakdown of respondents



2. General approach

2.1. Separated voluntary standard for non-listed SMEs (including micro enterprises)

Response	Percentage	Stated reason
Agree	75,8	A voluntary standard with simplified language would help to meet requests of information from large undertakings, allowing proportionate and cost-efficient adaptation for non-listed SMEs.
Disagree	24,2	VSME ESRS entails the same standard for all SMEs and provides guidance that can be used by micro-enterprises to align with the LSME ESRS

2.2. Alignment with ESRS

Main elements of alignment with ESRS were stated to be: *general principles, architecture, vocabulary, and simple and understandable use of language to reduce access barriers.*

Response	Percentage	Stated reason
Reasonably aligned	63,6	Compromise for a "phased in" approach and "open door" for SMEs to move towards full alignment
Fully aligned	33,3	To encourage best practice among businesses and facilitate transition from VSME to ESRS
Not aligned	3	-

2.2.1. Scope of VSME Standard

The responses showed that 76% indicated that the scope should cover SMEs (between 10-249 employees) in accordance with Accounting Directive 2013/34/EU. Arguments included: that micro-enterprises have minimal ESG impact and limited reporting capacities. In the process of scaling, enterprises will have to adopt the VSME Standards when they exceed 10 employees, thus there are incentives to comply with the Standards. 24% indicated that the potential scope should cover micro, small and medium sized enterprises.

2.3. VSME Proportionality

Question	Responses	Percentage
How should VSME Proportionality materialize in the VSME Standard?	Minimum number of disclosure requirements	45,5 %
	Additional Guidelines for implementation	24,2 %
	Higher level of materiality assessment	15,2 %
	Understandable vocabulary	9,1 %
	Other	6,1 %

2.4. VSME Minimum Set of Disclosures

A majority (93,7%) agreed that the VSME Standards should include a minimum set of disclosures responding to main users needs. The remaining 6,3 % argued that the VSME Standards should be voluntary to encourage businesses to make material impact. Additionally, 96,8 % agreed that the VSME Standard could suggest optional disclosures in line with ESRS for large companies to further develop topics included in the minimum content.

Minimum Set of Disclosures	Optional Set of Disclosures
Carbon emission – life cycle assessment of products and services	Biodiversity impact
Workers & Human rights (own & Tier1) /DR-S1 9, DR-S1 10, DR-S1 13, DR-S1 14,DR-S1 16, DR-S1 17	Stakeholder engagement
Energy consumption	Procurement management
Social	Materials
Energy and carbon emissions	Workforce opportunities
Sustainability strategy	
Minimum wage	
Market position, strategy and BM	

Optional or core minimum VSME Standards

	Optional	Core Minimum
SFDR PAIs	76,0%	24,0%
Taxonomy Regulation (art 8)	53,6%	46,4%
Pillar 3 ESG risks	70,4%	29,6%

3. Disclosure requirements (DR)

Possible content to be considered for VSMEs based on questionnaire feedback.

Possible DR	Datapoint description	Yes	No
Ownership and governance	The ownership structure	80,6%	19,4%

*Building blocks (revised version) – Issues Paper*

Possible DR	Datapoint description	Yes	No
	Roles and responsibilities of the governance in relation to sustainability matters	83,9%	16,1%
Business model, strategy and value chain	Turnover	76,7%	23,3%
	Market(s) the undertaking operates in	87,1%	12,9%
	Sector(s) of activity in which it operates	93,5%	6,5%
	Products and services offered	93,5%	6,5%
	Number of employees in each sector of activity	61,3%	38,7%
	Description of the potential challenges of the business model	64,5%	35,5%
	Overall strategy with respect to managing the sustainability matters	90,3%	9,7%
	Existence of Code of Conduct	77,4%	22,6%
	Engagement of the undertaking on specific sustainability matters related to its own operations	66,7%	33,3%
	Participation to business associations	51,6%	48,4%
Material impacts, risks or opportunities and their interaction with strategy	Whether the strategy is affected by material impacts or risks related to sustainability matters; and	93,5%	6,5%
	If so, regarding these materials impacts or risks		
	a. List them and describe how they affect the strategy	71,0%	29,0%
	b. If applicable, a description of the policies and actions taken	64,5%	35,5%
	c. If applicable, a description of the metrics used, and targets set for improvement	58,1%	41,9%
	d. If b) and/or c) are not applicable, a statement to the fact that policies do not exist, actions have not been taken; metrics are not used, and/or targets have not been set	58,1%	41,9%

**3.1. General Disclosures**

Possible missing datapoints suggested were:

- Contingency Plans
- End-date for goals and improvement initiatives
- Risk management and internal controls over sustainability matters
- Undertaking's mission
- Employee Manual
- Channel for reporting incorrect conduct
- Supplier selection procedure
- Description of the process to identify and assess material impacts, risks and opportunities

**3.2. Environment**

Possible DR	Datapoint description	Yes	No
Energy and carbon emissions (CO2)	Energy consumption in MW as expressed in utility billings	80,6%	19,4%
	Energy consumption breakdown between renewable and non-renewable sources	83,9%	16,1%
	CO2 equivalent tons (tCO2-eq) of GHG emissions (Scope 1 & 2)	87,1%	12,9%
	CO2 equivalent tons (tCO2-eq) of GHG emissions (Scope 3)	54,8%	45,2%

*Building blocks (revised version) – Issues Paper*

Possible DR	Datapoint description	Yes	No
	Description of the climate related risks	83,9%	16,1%
	Description of the opportunities in relation to the reduction of carbon emissions	64,5%	35,5%
	Description of how risks and opportunities may impact future financial performance	61,3%	38,7%
Resource use, circular economy, consumption, and waste management	Description of recycled goods and materials bought and sold	76,7%	23,3%
	Description of products sold that are recycled	63,3%	36,7%
	Water consumption	86,7%	13,3%
	If applicable, water discharge (e.g. water used and wasted during the process)	58,6%	41,4%
	Description of waste generation	83,3%	16,7%
	Description of the waste recycled or reused	76,7%	23,3%

Possible missing datapoints suggested were:

- Actions carried out by the company to facilitate reduction of CO2 at work for employees
- Teleworking opportunities to reduce their carbon footprint from traveling
- Disclose to your clients the actions they take to reduce their carbon footprint
- Facilitate recycling in offices/factories/warehouses etc.
- Internal communication of KPIs related to caring for environment
- General descriptions of direct environmental impacts
- Resource availability and ability to replace critical resources
- Operational emissions

### 3.3. Social

Possible DR	Datapoint description	Yes	No
Workforce - general	Number of employees	96,8%	3,2%
	Breakdown by region	45,2%	54,8%
	Number of temporary employees	66,7%	33,3%
	Number of permanent employees	72,4%	27,6%
	Breakdown by gender	90,3%	9,7%
Workforce – health and safety	Working hours lost due to different reasons (absenteeism, illness, etc.)	70,0%	30,0%
	Work-related injuries occurred	80,0%	20,0%
Workforce – opportunities for development	Hours of training	71,0%	29,0%
	Employee engagement practices (e.g. community volunteer work)	54,8%	45,2%

Possible missing datapoints suggested were:

- Maternity leave
- Social benefits for employees
- Worker turnover

- Burn out prevention
- Mental wellbeing
- Measures related to diversity and inclusion
- Anti-discrimination policies
- Living wage

3.4. Governance

Possible DR	Datapoint description	Yes	No
Responsible Business Practices (up-stream value chain)	How many suppliers among the total that are also using voluntary sustainability standards to engage with clients and suppliers	59,4%	40,6%
	How many suppliers request, collect and/or share sustainability related data and methodologies in the value chain the undertaking is engaged with	58,1%	41,9%
	Collaborative actions either with a sector/industry specific approach and/or with local stakeholders on sustainability matters	65,6%	34,4%
Customer relations and responsibility (down-stream value chain)	Forms and outcomes of customer engagement practices (e.g. report and website disclosures, customer surveys etc.)	50,0%	50,0%
	Personal data safety policy	68,8%	31,3%
	For manufacturing companies:		
	a. Product safety policy and sources of related, potential risks under control by the undertaking	75,0%	25,0%
	b. Systems in place to manage potential risks related to product safety	65,6%	34,4%

Possible missing datapoints suggested:

- Responsible Business Practices (up-stream value chain)
  - Number of suppliers voluntarily using sustainability standards
  - Collaborative actions, sector/industry specific
- Customer relations and responsibility (down-stream value chain)
  - Personal data safety policy
  - Customer engagement practices
  - Product safety policy