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V3.1**DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARD****LSME ESRS – SECTION 6 BUSINESS CONDUCT****DISCLAIMER (to be revised)**

Section 6 *Business conduct* of this [Draft] ESRS is set out in paragraphs 1 to 12 and Appendices A: *Defined terms* and Appendix B: *Application Requirements*. Appendices A and B have the same authority as the main body of the [draft] Standard. Each Disclosure Requirement is stated in a bold paragraph, followed by a paragraph that illustrates the objective of the disclosures. The [draft] Standard also uses terms defined in other [draft] ESRS and should be read in the context of its objective.



CONTENT AND STATUS OF THIS DRAFT

This draft has to be read in conjunction with the Agenda Papers on LSME discussed in SR TEG and SRB meeting in January, February, March, and April 2023.

This draft has been developed as a markup from [draft] ESRS G1 (November 2022). For the session on 21 June, the changes from the EC draft Delegated Act ESRS have been incorporated on a best effort basis to allow timely discussion, but the quality check of those changes is still in progress.

To reflect the principle of proportionality, the following key simplifications have been implemented in this document (on the basis of the SR TEG discussions/ approach presented by the EFRAG Secretariat at previous meetings):

- The text of SET 1 standards has been integrally considered and amended where appropriate, so that LSME will be a standalone document.
- EFRAG will consult on the applicability of each Sector specific ESRS to LSMEs, as part of the consultation on that ESRS. A question on the general approach to sector standards in LSME will also be included in LSME Exposure Draft. Pending the definition of such an approach, in this draft the references to sector-specific ESRS has been eliminated.
- The reporting covers material impacts and risks. Opportunities are voluntary.
- The undertaking shall disclose negative impacts. Positive impacts are voluntary.
- The approach to entity-specific disclosure is unchanged from Set 1 ('shall').
- Targets are disclosed only when they are in place, without the requirement to justify when they are not in place (differently from SET 1). Additional details will also be required when targets are in place, to ensure a minimum level of discipline (inspired by DC-T but significantly simplified) on the definition of targets.
- The working paper for Section 5 has been defined according to:
 - the decision tree presented previously to the SR TEG, including only DRs that are defined in SFDR PAIs and Benchmark Regulations;
 - CSRD Art. 29 b (2) provisions. DRs has been included for "protection of whistle-blowers and animal welfare", " lobbying activities", "payment practices"
 - SR TEG meeting held on 02 February 2023 (breakout session)
- G1-2 and G1-6 defined in ESRS G1 has been simplified and merged in G1-1 of this draft section.
- G1-3 and G1-4 defined in ESRS G1 has been simplified and merged in G1-2 of this draft section.
- Parts in **grey** indicate the implemented changes based on the European Commission Delegated Act on Set 1.
- Appendixes to be reviewed:
 - Appendix A "Defined terms", to be merged with the other sections (centralised glossary);
 - Appendix B "Application requirements", still working in progress pending the final decision on the related DRs.

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Objective

1. The objective of this section of this [draft] Standard is to specify disclosure requirements which will enable users of the undertaking's sustainability statements to understand the undertaking's strategy and approach, processes and procedures as well as its performance in respect of business conduct.
2. This section focusses on the following matters:
 - (a) anti-corruption and anti-bribery;
 - (b) the management of relationships with suppliers including payment practices, especially with regard to late payment; and;
 - (c) political influence and lobbying activities.

Interaction with other ESRS

3. The content of this section on general disclosures as well as impact and risk management and metrics shall be read in conjunction respectively with [draft] section 1 *General principles* and section 2 *General requirements*.

Disclosure Requirements

Disclosure Requirement G1-1 – Management of relationships with suppliers

4. **The undertaking shall provide information about the management of its relationships with its suppliers and its impacts on its supply chain.**
5. This disclosure requirement should be read in conjunction with Section 2 IR 3, where the undertaking shall state whether it has a supplier code of conduct.
6. The undertaking may disclose information on its purchasing practice / procedure and whether it considers also ESG criteria.
7. The undertaking shall disclose whether it has established a practice / procedure to monitor late payments.

Disclosure Requirement G1-2 – Anti-corruption and anti-bribery

8. **The undertaking shall provide information about its system to prevent and detect, investigate, and respond to allegations or incidents relating to corruption and bribery including the related training.**
9. The undertaking shall disclose:
 - (a) whether it has assessed the effectiveness of actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery¹;
 - (b) the number of convictions and the amount of fines for violation of anti-corruption and anti-bribery laws².

¹ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts set out in indicator #16 of Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments (respectively "Cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery").

² This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts set out in indicator #17 of Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments

Metrics

Disclosure Requirement G1-3 – Political influence and lobbying activities

10. **The undertaking shall provide information on the activities and commitments related to exerting its political influence, including its lobbying activities related to its material impacts, risks and (opportunities).**
11. The disclosure required by paragraph 10 shall include:
- (a) if applicable, the representative(s) responsible in the administrative, management and supervisory bodies for the oversight of these activities;
 - (b) for financial or in-kind political contributions:
 - i. the total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking. The undertaking may disclose an aggregation by country or geographical area where relevant, as well as type of recipient/beneficiary; and
 - ii. where appropriate, how the monetary value of in-kind contributions is estimated.
 - (c) the main topics covered by its lobbying activities and the undertaking's main positions on these in brief.

(respectively “Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws”) and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator “Numbers of convictions and amount of fines for violations of anti-corruption and anti-bribery laws” in section 1 and 2 of Annex 2.

Appendix A: Defined terms (to be moved to centralised glossary)

This appendix is an integral part of the [draft] ESRS G1 and has the same authority as the other parts of the [draft] Standard.

| | |
|--|--|
| Bribery | Dishonestly persuading someone to act in your favour by giving them a gift of money or another inducement. |
| Corporate culture | Corporate culture expresses goals through values and beliefs. It guides the undertaking’s activities through shared assumptions and group norms such as values or mission statements or a code of conduct. |
| Confirmed incident of corruption or bribery | An incident of corruption or bribery that has been found to be substantiated. Confirmed incidents of corruption do not include incidents of corruption that are still under investigation at the end of the reporting period. The determination of potential non-compliance cases as substantiated may be made either by the undertaking’s compliance officer or similar function or an authority. A determination as substantiated by a court of law is not required. |
| Corruption | Abuse of entrusted power for private gain, which can be instigated by individuals or organisations. It includes practices such as facilitation payments, fraud, extortion, collusion, and money laundering. It also includes an offer or receipt of any gift, loan, fee, reward, or other advantage to or from any person as an inducement to do something that is dishonest, illegal, or a breach of trust in the conduct of the undertaking’s business. This can include cash or in-kind benefits, such as free goods, gifts, and holidays, or special personal services provided for the purpose of an improper advantage, or that can result in moral pressure to receive such an advantage. |
| Lobbying activities | Refers to activities carried out with the objective of influencing the formulation or implementation of policy or legislation, or the decision-making processes of governments, governmental institutions, regulators, European Union institutions, bodies, offices and agencies or standard setters. Such activities include (non-exhaustive list): <ul style="list-style-type: none"> • organising or participating in meetings, conferences, events; • contributing to/participating in public consultations, hearings or other similar initiatives; • organising communication campaigns, platforms, networks, grassroots initiatives; • preparing/commissioning policy and position papers, opinion polls, surveys, open letters, research work as per the activities covered by transparency register rules. |

Appendix A: Application Requirements

This appendix is an integral part of the [draft] ESRS G1 *Business conduct*. It supports the application of the disclosure requirements set out in this section and has the same authority as the other parts of the [draft] Standard.

Disclosure Requirement G1-1 – Management of relationships with suppliers

- AR 1. For purposes of this standard, management of relationships with the undertaking's suppliers may include the following:
- (a) how the undertaking's practices, including activities to avoid or minimise the impacts of disruptions to its supply chain, support its strategy and risk management;
 - (b) the screening and evaluation of social and environmental performance of suppliers;
 - (c) how the undertaking's practices deal with vulnerable suppliers;
 - (d) the undertaking's targets and actions with regard to communication and management of relationships with suppliers; and
 - (e) how the outcomes of these practices are evaluated, including supplier visits, audits or surveys.
- AR 2. 'Vulnerable suppliers' includes suppliers that are exposed to significant economic, environmental and/or social risks.

Disclosure Requirement G1-2 – Anti - corruption and anti - bribery

- AR 3. 'Functions-at-risk' means those functions deemed to be at risk of corruption and bribery as a result of its tasks and responsibilities.
- AR 4. Disclosures may include details about the risk assessments and/or mapping as well as monitoring programmes and/or internal control procedures performed by the undertaking to detect corruption and bribery.
- AR 5. The undertaking may present the required information about training on its anti-bribery and corruption policies using the following table:

Anti-corruption and bribery training illustrative example

During the 20XY financial year ABC provided training to its at-risk own workers in terms of its policy (see note x).. Details of its training during the year is as follows:

| | Managers | Other employees |
|---------------------------------------|-----------------|------------------------|
| Training coverage | | |
| <i>Total</i> | 5 | 50 |
| <i>Total receiving training</i> | 3 | 42 |
| Total hours of training | 6 | 84 |
| Frequency | | |
| <i>How often training is required</i> | Annually | Annually |

Metrics***Disclosure Requirement G1-3 – Political influence and lobbying activities***

- AR 6. For purposes of this [draft] Standard ‘political contribution’ means financial or in-kind support provided directly to political parties, their elected representatives or persons seeking political office. Financial contributions can include donations, loans, sponsorships, retainers, or the purchase of tickets for fundraising events and other similar actions. In-kind contributions can include advertising, use of facilities, design and printing, donation of equipment, provision of board membership, employment or consultancy work for elected politicians or candidates for office.

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