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Input Paper basis for conclusions LSME ESRS

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Objective of the document

- 1 The purpose of this document is to provide input for the forthcoming basis for conclusions of the LSME ESRS. The document contains the main preparatory material, outcome of meetings, methodological approach of the LSME ESRS. It includes:
 - ✓ The CSRD provisions for LSME ESRS
 - ✓ The figures on the scope of the LSME ESRS (SMEs, Small and Non-Complex Institutions and captive insurances and reinsurances)
 - ✓ The methodological approach defined with SRT TEG, SRB, LSME community and EWG) based on decision tree
 - ✓ The concept of building blocks Set 1 ESRS, LSME SRS and VSME ESRS
 - ✓ The architecture and key simplification in draft LSME ESRS compared to Set 1 ESRS

- ✓ The outstanding questions that are proposed to insert in the future public consultations.

CSRD Provisions for LSME ESRS

- 2 The CSRD¹ introduces simplified Sustainability Reporting Standards for listed SMEs, small non-complex credit institutions and captive insurances and reinsurances (LSME ESRS) as derogation to the ESRS for large undertakings.
- 3 **Recital 17 and 21:** indicate the function of LSME ESRS in terms of ensuring investor protection, enhancing access to capital and investment portfolios for smaller issuers, ensure compliance with SFDR and taxonomy regulation. **Recital 53:** highlights the proportionality and the function of LSME ESRS in setting cap of value chain.
- 4 **Art 19a (6)** - as derogation to art 19a(1) specifies the reporting content of LSME ESRS to include :
 - (a) a brief description of the undertaking's business model and strategy;
 - (b) a description of the undertaking's policies in relation to sustainability matters;
 - (c) the principal actual or potential adverse impacts of the undertaking on sustainability matters, and any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts;
 - (d) the principal risks to the undertaking related to sustainability matters and how the undertaking manages those risks;
 - (e) key indicators necessary for the disclosures referred to in points (a) to (d).
- 5 **Art. 19a (7)** derogation for LSME for financial years starting before 1 January 2028, not to report but briefly state in management report why the sustainability reporting was not provided.
- 6 **Article 29c** on sustainability reporting standards for SMEs establishes that sustainability reporting standards shall *be proportionate and relevant to the scale and complexity of the activities, and to the capacities and characteristics of small and medium-sized undertakings*. In terms of content, it refers to art 19a (6) and to the *criteria in Article 29b, paragraphs 2, 3, 4 and 5*. It requires the standards to specify, to the extent possible, the structure in which that information shall be reported. The Commission shall adopt those delegated acts at the latest by 30 June 2024.
- 7 **Article 29b (2):** lists what sustainability subject matter sustainability reporting standards shall cover across ESG. Same list as for large undertakings.

¹ Corporate Sustainability Reporting Directive :



- 8 **Article 29b (3):** lists the existing European texts and international initiatives that shall be taken account of when drafting and then adopting the standards. Same list as for large undertakings.
- 9 **Article 29b (4)** sets the cap value chain: (...) Sustainability reporting standards shall specify disclosures on value chains that are proportionate and relevant to the capacities and the characteristics of undertakings in value chains, and to the scale and complexity of their activities, especially those of undertakings that are not subject to the sustainability reporting requirements in Article 19a or 29a. Sustainability reporting standards shall not specify disclosures that would require undertakings to obtain information from small and medium-sized undertakings in their value chain *that exceeds the information to be disclosed pursuant to the sustainability reporting standards for small and medium-sized undertakings referred to in Article 29c.*
- 10 To note as well that **LSME** reporting is on **individual basis only**, there are no provisions for small and medium sized groups consolidated report. Under **Art. 19a(9)**, listed SMEs are exempted from carrying out individual sustainability reporting if they are included in the consolidated management report of a parent company that has carried out consolidated sustainability reporting in accordance with Art. 29a (and if certain other specific conditions are met);
- 11 **Under Art. 29a(1)**, where LSME is parent undertakings of a large group (which does not happen frequently but cannot be excluded), they have to report in accordance with the ESRS for large undertakings (Art. 29a(5)). Under Art. 29a(7), if a listed SME is providing consolidated sustainability reporting, it is exempted from providing individual sustainability reporting. Under Art. 29a(8), listed SMEs are exempted from carrying out their consolidated sustainability reporting if they are included in the consolidated management report of another parent company that has provided consolidated sustainability reporting in accordance with Art. 29a (and if certain other specific conditions are met) .

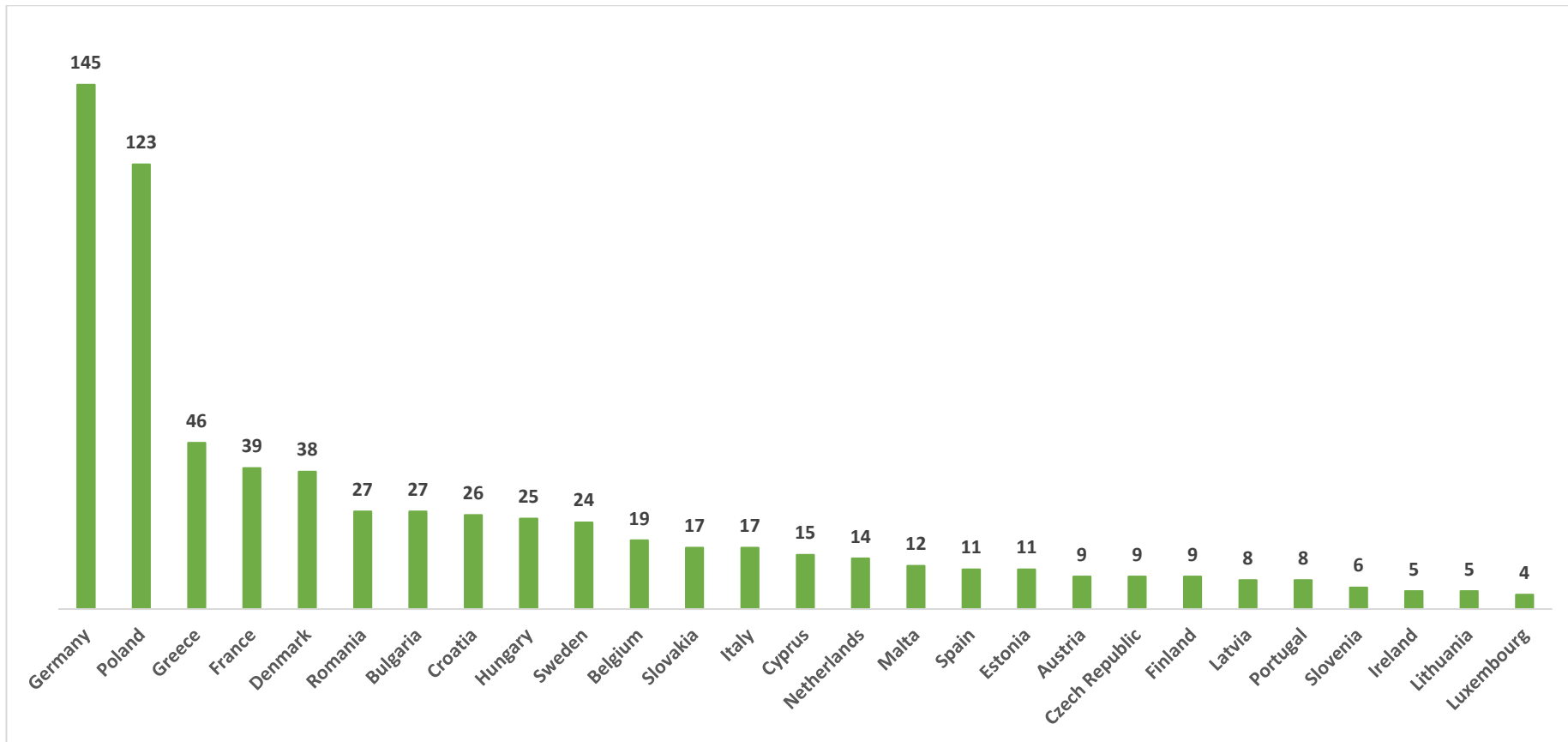
Figures on the scope of the LSME ESRS

- 12 Article 19a (6) of the CSRD establishes that the following undertakings **may use simplified reporting standards (art 29c)**:
- **small and medium-sized undertakings (SMEs)**, except micro undertakings, which are public-interest entities as defined in point (a) of point (1) of Article 2 of the Accounting Directive N. 2013/34,
 - **small and non-complex institutions** defined in point (145) of Article 4(1) of Regulation (EU) No 575/2013,
 - **captive insurance and reinsurance** undertakings defined in point (2) of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council***
- 13 Based on Art. 4(5) of the Transparency Directive (as amended by the CSRD), which requires all companies (EU and non-EU) listed on the EU regulated markets to report their sustainability information in compliance with CSRD rules, third country listed SMEs are required to comply with the same obligation set out for EU listed SMEs



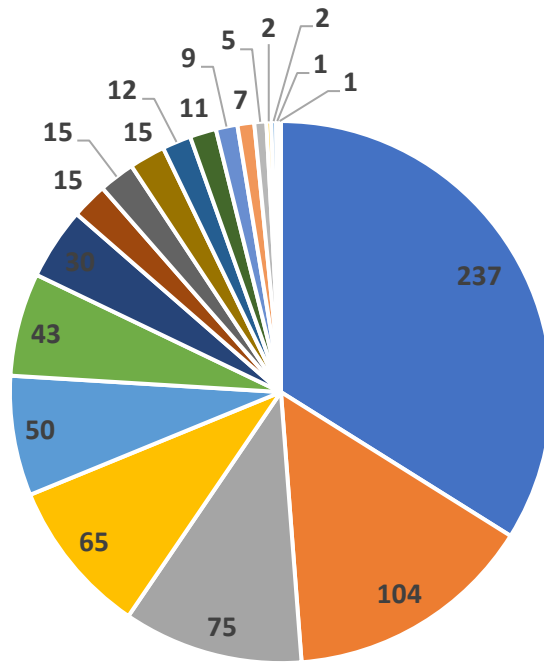
- 14 For the identification of the listed SMEs which fall into the scope of the [draft] LSME ESRS, EFRAG Secretariat extracted undertakings from Orbis database that are based in Europe and are listed in on a European regulated market. To also note that the EC and CEPS have published their own studies on SMEs and the CSRD (([Study on the non-financial reporting directive - Publications Office of the EU \(europa.eu\)](#), / [EUR-Lex - 52021SC0150 - EN - EUR-Lex \(europa.eu\)](#)). The studies indicate a total number of about 1.000 listed SMEs in Europe, that is different from the data that the EFRAG Secretariat has estimated. To note that the secretariat estimations do not cover the figures on third country SMEs listed in a EU regulated market at the moment.
- 15 Small and medium-sized undertakings (SMEs) Breakdown by size – Source Orbis elaborated by EFRAG secretariat. Methodological approach: i) extract listed companies in the 27 member states, ii) manually identify listed SMEs based on accounting directive criteria, iii) double check with the regulated markets of Europe. Total 699 companies (523 medium, 176 small). To note that the estimated figure only considers the number of European listed SMEs listed in EU regulated markets, it does not differentiate listed SMEs that are parents of a large group (art. 29 a would apply) nor it includes the third –countries SMEs listed in EU regulated markets or listed SMEs that are subsidiaries of third-countries parent companies (both in scope of LSME ESRS).
- 16 Breakdown by Country





17 Breakdown of listed SMEs by NACE



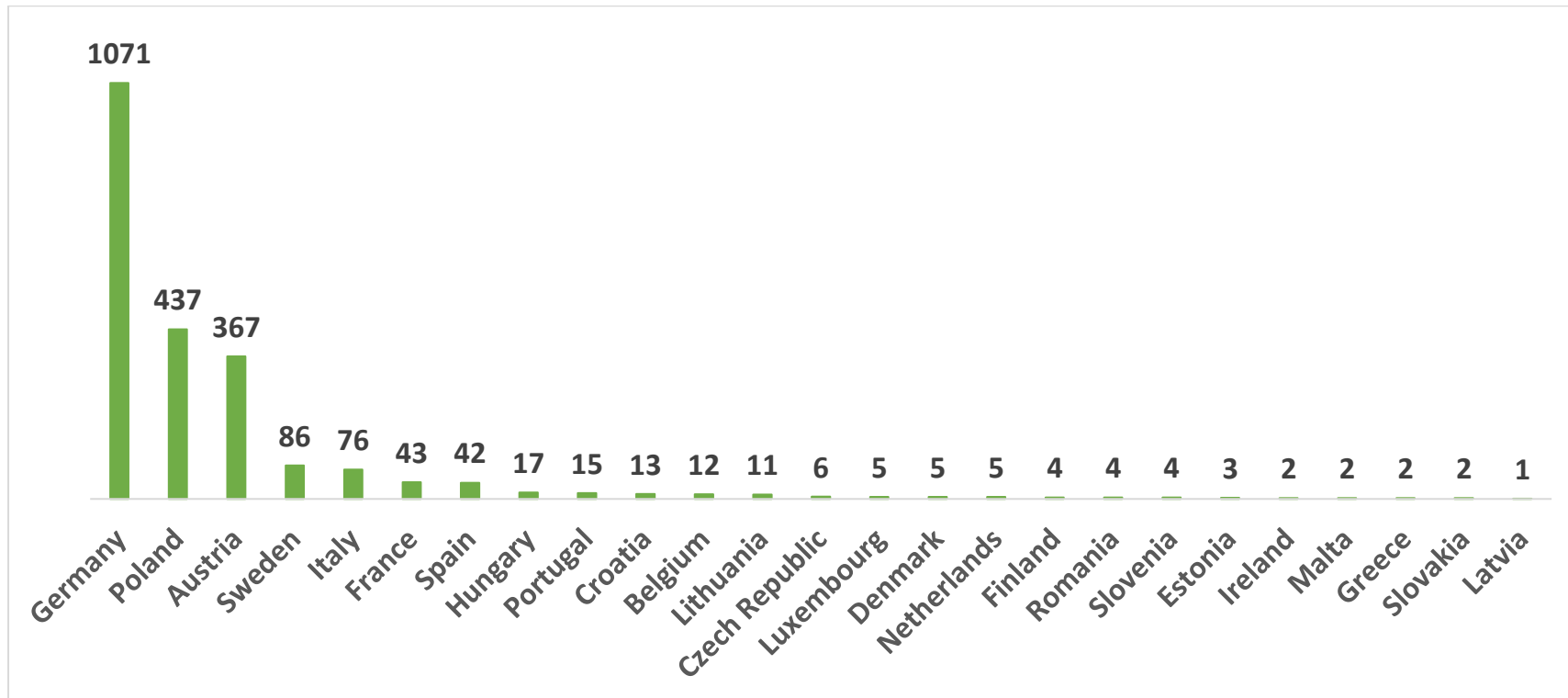


- C - Manufacturing
- K - Financial and insurance activities
- J - Information and communication
- L - Real estate activities
- G - Wholesale and retail trade; repair of motor vehicles and motorcycles
- M - Professional, scientific and technical activities
- S - Other service activities
- N - Administrative and support service activities
- F - Construction
- D - Electricity, gas, steam and air conditioning supply
- I - Accommodation and food service activities
- A - Agriculture, forestry and fishing
- Q - Human health and social work activities
- R - Arts, entertainment and recreation



Small and Non-Complex Credit Institutions

Based on EBA data, the EFRAG Secretariat has identified¹ 2361 Small and Non-Complex Credit Institutions in the EU, with almost 50% representation in Germany, 20% in Poland and 16% in Austria.



18 Captive Insurances and Reinsurances: no official data available (estimation by EIOPA about 300 companies).



Comparison of reporting areas to be covered in ESRS for listed SMEs versus ESRS

19 The table below provides an overview of correspondences and differences of reporting areas between ESRS for listed SMEs and ESRS for large undertakings. Correspondences are highlighted in bold. Differences discussed by SR TEG because particularly relevant are highlighted in **orange** (partial correspondence of content, reduced granularity) and in **red** (no content correspondence). The outcome of SR TEG decisions for each of the differences is outlined in table (column 3).

Reporting areas in SET 1 ESRS [art 19a (2)]	Reporting areas in LSME ESRS [art 19a (6)]	Methodological approach agreed by SR TEG
<p>a) a brief description of the undertaking's business model and strategy, including:</p> <ul style="list-style-type: none"> i. the resilience of the undertaking's business model and strategy in relation to risks related to sustainability matters; ii. the opportunities for the undertaking related to sustainability matters; iii. the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the 'Paris Agreement') and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council*, and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities; 	<p>(a) a brief description of the undertaking's business model and strategy;</p>	<p>-Opportunities: voluntary content. -Opportunities in IFRS S1 (not aligned)</p>



Reporting areas in SET 1 ESRS [art 19a (2)]	Reporting areas in LSME ESRS [art 19a (6)]	Methodological approach agreed by SR TEG
<p>iv. how the undertaking’s business model and strategy take account of the interests of the undertaking’s stakeholders and of the impacts of the undertaking on sustainability matters;</p> <p>v. how the undertaking’s strategy has been implemented with regard to sustainability matters;</p>		<p>- Interest of stakeholders: to be covered only to the extent that they are factored in (additional AR to support LSME), i.e. provided that the undertaking engages with stakeholders, it shall disclose how their interests and views are taken into account in undertaking’s strategy and business model(s).</p> <p>- Positive impacts: voluntary.</p>
<p>b) a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets, and a statement of whether the undertaking’s targets related to environmental factors are based on conclusive scientific evidence;</p>		<p>- Targets: to disclose when the undertaking has set targets to track progress.(add question in consultation to test approach).</p> <p>- Scientific if undertaking has set targets on GHG, pollution, water, biodiversity, resources and circular economy. based on existing SMEs tools (i.e. science-based targets initiative for SMEs)</p> <p>- Targets approach in IFRS S1 : not aligned</p>
<p>c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters, and of their expertise and skills in</p>		<p>- G1 (par.20) simplified compared to Set 1.</p> <p>- Art 29b (2) (c) (i): he role of the undertaking’s administrative, management and supervisory bodies</p>



Reporting areas in SET 1 ESRS [art 19a (2)]	Reporting areas in LSME ESRS [art 19a (6)]	Methodological approach agreed by SR TEG
relation to fulfilling that role or the access such bodies have to such expertise and skills		with regard to sustainability matters, and their composition, as well as their expertise and skills in relation to fulfilling that role or the access such bodies have to such expertise and skills;
d) a description of the undertaking’s policies in relation to sustainability matters;	(b) description of the undertaking’s policies in relation to sustainability matters;	
e) information about the existence of incentive schemes linked to sustainability matters which are offered to members of the administrative, management and supervisory bodies;		
<p>f) a description of:</p> <p>i) the due diligence process implemented by the undertaking with regard to sustainability matters, and, where applicable, in line with Union requirements on undertakings to conduct a due diligence process;</p> <p>(ii) the principal actual or potential adverse impacts connected with the undertaking’s own operations and with its value chain, including its products and services, its business relationships and its supply chain, actions taken to identify and monitor those impacts, and other adverse impacts which the undertaking is required to identify pursuant to other</p>	<p>(c) the principal actual or potential adverse impacts of the undertaking on sustainability matters,</p>	<p>- Due Diligence: disclose whether it has adopted sustainability due diligence process(es) or not (SFDR datapoint). If yes: expand.</p> <p>-Value chain: to be included not to affect definition of impact materiality and the set 1 ESRS via the cap.</p>



Reporting areas in SET 1 ESRS [art 19a (2)]	Reporting areas in LSME ESRS [art 19a (6)]	Methodological approach agreed by SR TEG
<p>Union requirements on undertakings to conduct a due diligence process;</p> <p>(iii) any actions taken by the undertaking to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the result of such actions</p>	<p>and any actions taken to identify and monitor,</p> <p>prevent, mitigate or remediate such actual or potential adverse impacts;</p>	<p>Process to engage (IR 5) centralised has been included</p> <p>Process to remediate (IR 6) has been included</p>
<p>(g) a description of the principal risks to the undertaking related to sustainability matters, including a description of the undertaking’s principal dependencies on those matters, and how the undertaking manages those risks;</p>	<p>(d) the principal risks to the undertaking related to sustainability matters</p> <p>and how the undertaking manages those risks;</p>	
<p>(h) indicators relevant to the disclosures referred to in points (a) to (g).</p>	<p>(e) key indicators necessary for the disclosures referred to in points (a) to (d).</p>	



Methodological approach (SRB, SR TEG, LSME Community and SMEs EWG)

- 20 The EFRAG secretariat has established the methodological approach to the draft LEME ESRS between December 2022 and February 2023 based on questionnaires addressed to and meetings held with EFRAG SR TEG, LSME community and SME EWG as well as orientations received by EFRAG SRB.
- 21 On this basis the following **key principles** have been established:
- (a) **Stand-alone LSME ESRS:** The text of Set 1 ESRS for large undertaking has been integrally considered and amended where appropriate, so that LSME will be a standalone document.
 - (b) **Building-Block modular approach** between i) ESRS set1, ii) LSME ESRS and iii) future VSME ESRS (voluntary reporting for non-listed SMEs): please see Issue Paper 03.03 “Building Blocks” for details. To note that SRB agreed on 27 January 2023 to: i) start with LSME; simplify LSME (proportionality) - but within the remit of the CSRD constraints; iii) once LSME basis is stabilised, consider VSME (incl. the current draft) from a consistency and additional proportionality perspective; iv) potentially consider merging LSME and VSME if appears relevant. The overall purpose is to make available a standard for the two populations (listed and non-listed SME) in same timeframe.
 - (c) **General Principles and Basis for Preparation:** same as set 1 (with differences deriving from CSRD). Characteristic of quality applies. To note that additional simplification are being proposed in the Issue Paper 03.03 Building Blocks, since the IFRS alignment is considered secondary to simplification (see also par.24 below), to identify the common minimum content module.
 - (d) **Approach to value chain:** shall be based on risk, same as large companies. The value chain remains, due to the fact that art. 29c refers to art 29b (2-5) that include value chain.
 - (e) **List of sustainability matters:** same list as for large undertakings, i.e. ESRS 1 Appendix B, due to the fact that art. 29c refers to art. 29b (2-5) that include same list of sustainability topic as for large undertakings.
 - (f) **Sector Specific layer LSME:** there are no provisions for sector-specific standards in SMEs. However, stakeholders underlined the importance of sector guidance. A question on the general approach to sector standards in LSME may be included in LSME Exposure Draft. For now the references to sector-specific ESRS has been eliminated in the draft.
 - (g) **Entity-specific applies:** Some SR TEG and LSME community members indicated that the removal of the provisions on entity-specific may be a meaningful simplification for LSME. The final SR TEG decision was to keep it as for large companies with the rationale of avoiding



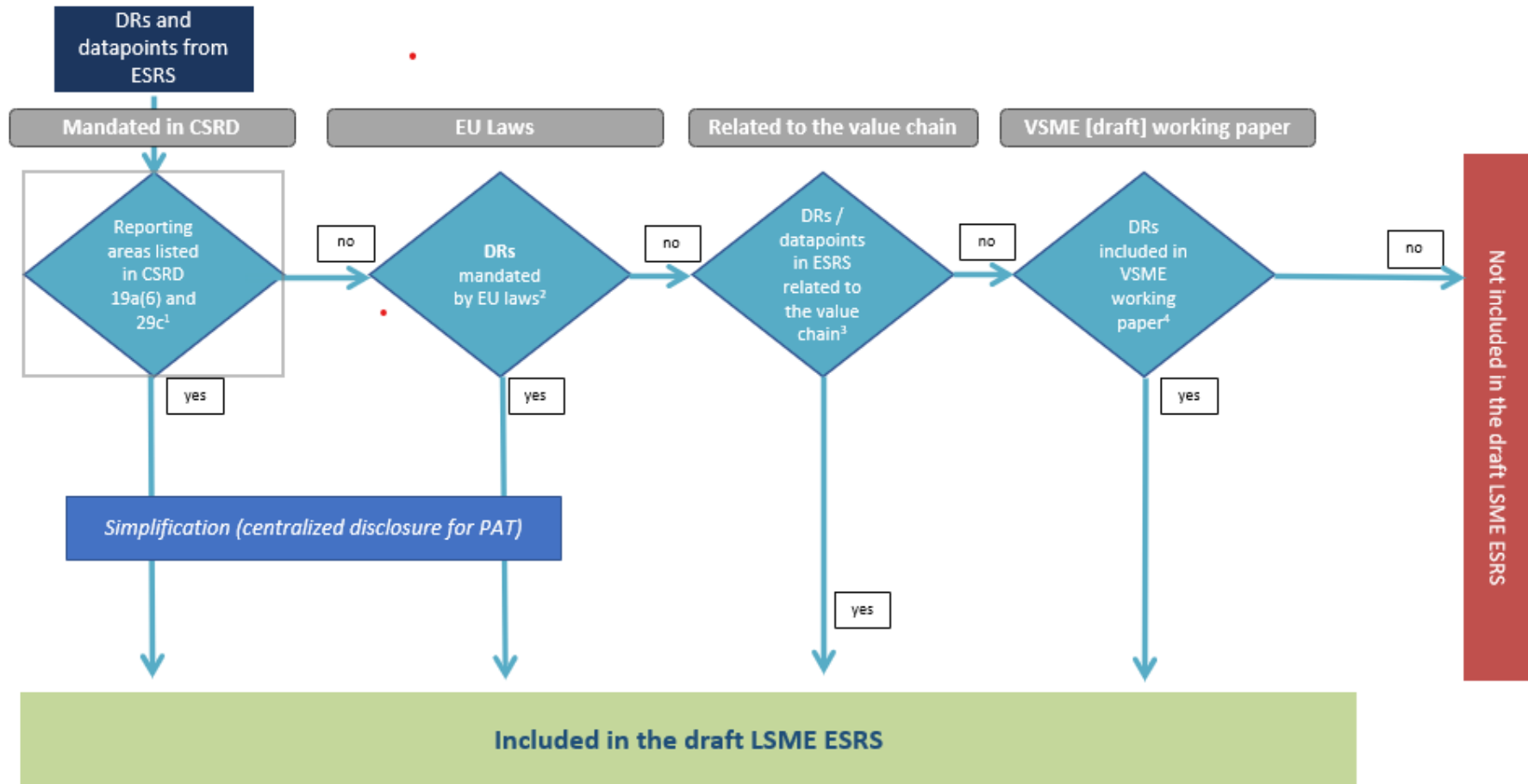
discrimination of LSME in terms of sustainability information provided to investors compared to large. This is in line with CSRD. To validate the approach, a question will be added in the consultation draft LSME Exposure Draft.

- (h) **Cross-cutting sections:** to replace DC-A, DC-P and DC-T with a centralized disclosure requirement on policies, actions and targets in relation to material sustainability matters (except for climate that is mandatory). This centralised disclosure considers each specific requirement on policies, actions and targets as indicated in ESRS SET1 topical standards. Especially those datapoints required by SFDR, Benchmark, Pillar 3 ESG, according to decision tree (below). The centralization of the disclosure has been introduced as significant element of simplification in the methodological approach. See also [Agenda Paper 03-02 SRB meeting 22 March 2023](#).
- (i) **Topical-sections:** to include only metrics in line with decision tree. The narrative parts have been centralized in Section2. More details in the paragraph “Decision tree” below
- (j) **Mandatory disclosures: originally** i) section 2 that is the equivalent of ESRS 2, (except for the new centralized disclosures on PAT and Process to identify and engage); ii) Section 3, climate only, the equivalent to ESRS E-1; datapoints related to SFDR PAIs Table 1. **Following the publication of the EC DA ESRS**, this is being revised as “only section 2 mandatory”)

22 In order to identify the criteria to simplify SET1 ESRS in line with CSRD, EFRAG SR TEG and SRB have supported the secretariat proposal of a **decision tree**. This decision tree includes **the following parameters:** i) CSRD art. 19a(6) and 29b(2); ii) EU datapoints: SFDR, Benchmark, Pillar 3 ESG and Taxonomy datapoints and datapoints corresponding to ESRS 2 ; iii) disclosures that may trigger the value chain cap; iv) disclosures included in ex-PTF proposal for VSME². (voluntary standard for non-listed SME and micro). The graphic representation is as follows:

² Appendix 1 – Issue Paper 01-03 SR TEG 17 November 2022:
<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2211041503270617%2F04-01%20Issue%20Paper%20-%20Approach%20to%20EU%20Voluntary%20Reporting%20Standard%20for%20SMEs%20outside%20the%20scope%20of%20CSRD%20and%20Appendix%201%20-%20SR%20TEG%2017112022.pdf>





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

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

Note 3: Is the DR / datapoint in ESRS essential for the depiction of the matter, or essential for the « value chain cap »?

Note 4: VSME [draft] working paper is based on EFRAG PTF cluster 8 proposal



- 23 Further to the methodological issues identified above, EFRAG EWG, SR TEG and SRB have discussed the following points
- a) Alignment LSME ESRS versus ISSB : in the analysis between draft LSME and IFRS S1 and S2, EFARG secretariat has 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 has not explicit requirements for LSME. From this perspective, even if the draft LSME achieves a high degree of alignment, the full one cannot be achieved. On this basis SR TEG indicated that In the trade-off between simplifications for LSME according to CSRD and alignment with IFRS S1 and S2, the first one (simplification) could prevail. One example is the simplification in Gov 1.
 - b) Gov 1 simplifications: reduce granularity and simplify requirement. Current disclosures were analysed by the secretariat comparing 25 LSME in different EU countries. Simplification were possible as alignment with IFRS S1 is not a priority in LSME.
 - c) Intellectual property and sensitive information: SRB and SR TEG considered the argumentation that for SMEs (including start-ups) the issue of sensitive information and intellectual property may be proportionally more important compared to large undertakings. The idea of lowering the threshold for LSME through a“ more prominent use of the Member State exemption, as defined in articles 19a (3) and 29a (3) of the CSRD” was explored. This option could not however be pursued due to the legal basis in CSRD.
 - d) Consolidation in LSME: SRB required a legal check of whether consolidation would apply to LSME. Following the legal confirmation that LSME shall only report on individual basis, the working paper text is being adjusted accordingly (i.e. deletion of reference to consolidated reporting in all sections where relevant). The fact that ESRS for listed SMEs does not require reporting at consolidated level does not mean necessarily that subsidiaries are automatically excluded from the reporting on the value chain (the activity of a subsidiary could still be relevant from a value chain angle even if the reporting is at individual level).

General architecture and main simplifications in draft LSME ESRS

- 24 The following general architecture and main simplifications compared to Set 1 ESRS for large undertakings were defined during the SR TEG, SRB, EWG and LSME community meeting. The main simplifications reported in the following table are the result of the methodological approach, decision tree and analysis of CSRD provisions described in the previous paragraphs. To note that text of reference for ESRS set 1 is EFRAG’s technical advise of November 2022. Adjustments to be incorporated in light of the EC Delegated Act draft ESRS of June 2023.



ESRS set 1	Draft LSME ESRS
ESRS 1 – General Requirements	<p>Section 1 – General Requirements</p> <ul style="list-style-type: none"> • Scope: adjusted to match CSRD LSME scope • Presenting comparative information: exemption when it is not possible to adjust comparative information with reasonable effort. The undertaking shall disclose this to be the case. • Reporting errors prior period: exemption to restating the comparative amounts when it is not possible with reasonable effort. The undertaking shall disclose this to be the case. • Intellectual property, know-how or results of innovation: additional simplifications have been envisaged (to be adjusted in line with EC DA) management and supervisory bodies, may nevertheless omit that specific piece of information if it is secret or could be seriously prejudicial to the undertaking because of its confidentiality.. • The reporting covers material impacts and risks. Opportunities are voluntary. • The undertaking shall disclose negative impacts. Positive impacts are voluntary. • Due Diligence: the undertaking is requested to disclose whether it has adopted or not sustainability due diligence process(es). If yes: brief description. • Policies: examples in AR of “not formalised” policies. • Provisions related to consolidation have been deleted in line with art. 19a(6) and individual reporting.
ESRS 2 – General Disclosures	<p>Section 2 – General Disclosures</p> <ul style="list-style-type: none"> • BP1 and BP 2: reduced granularity in value chain estimation. Option not to provide restated comparative figures when it is not possible to do so with reasonable effort. • GOV 1: reduced granularity, simplified (kept EU datapoints)



	<ul style="list-style-type: none">• GOV 2 : sustainability due diligence. To disclose whether it has applied DDP or it has not (EU datapoint). If yes: brief description.• SBM1: simplification instead of revenue breakdown, requirement to disclose the list of significant ESRS sectors in which the undertaking operates.• SBM 2: on interests and views of stakeholders applies only in the case that stakeholder engagement occurs. Specific AR to support LSME• New SBM 4: material opportunities as voluntary content• IR 1: Incorporation of the contents related to IRO 1 in the topical standards ESRS SET1 1 (main body), in a summarised way; new centralised disclosure on processes (location of disclosure up to undertaking) to identify and assess material impact and risks.• All disclosure content related to Policies, Actions and Targets have been removed form topical sections and centralised in Section 2 as follows:• IR 3 : new centralised disclosure requirement on policies and actions (location of disclosure up to undertaking). The DR considers each specific requirement on policies adopted and actions as indicated in the ESRS SET 1 topical standards, especially those required by SFDR and other EU regulations/directives, according to decision tree. Disclosure was simplified by adding in the AR a navigation table of EU datapoints by sustainability topic.• IR 4: new centralised disclosure on targets (location of disclosure up to undertaking). DRs apply when the undertaking is monitoring the effectiveness of its actions to address a material sustainability matter through measurable time-oriented targets.• IR 5: new centralised disclosure on Processes for engaging with own workers, workers in the value chain, affected communities, consumers and end-users, and their representatives about impacts. Simplified text compared to S1S2,.S3 and S4 in set 1.• IR 6: new centralised disclosure on Processes to remediate negative impacts and channels for own workers, workers in the value chain, affected communities,
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	consumers and end-users to raise concerns. Simplified text compared to S1S2,,S3 and S4 in set 1.
ESRS E-1 – Climate	<p>Section 3 – Environmental Disclosures</p> <ul style="list-style-type: none"> • Only metrics covering climate, pollution, water, biodiversity and ecosystems, resources and circular economy. • The following DR's <u>were deleted compared to set 1 ESRS</u>, based on decision tree: <ul style="list-style-type: none"> • E1-1 Transition Plan (initially retained and then deleted following SR TEG decision), • E-1-8 Internal Carbon pricing (climate), • E4-1 Biodiversity transition plan (initially retained and then deleted, following SR TEG decision and alignment with EC DA). • Financial effects were simplified and centralised in Section 2. Financial effects for climate financial effects were retained in the environmental section as metric due to the EU datapoints it contains. • The following DRs were simplified where possible compared to set1(simplifications only applicable to datapoints that do not have value chain dimension or that are not EU datapoints): <ul style="list-style-type: none"> • E 1- 5 Energy consumption and mix (reduced granularity breakdown for renewables) • E 1- 6 GHG emissions (reduced breakdowns) • E 1- 7 GHG removals (reduced granularity) • E 4- 2 Biodiversity impact metrics (reduced granularity)
ESRS E-2 - Pollution	
ESRS E-3 - Water	
ESRS E-4 - Biodiversity and ecosystems	
ESRS E-5 – Resources and Circular Economy	
ESRS S1 – Own workforce	<p>Section 4 – Social Disclosures</p> <ul style="list-style-type: none"> • Policies, actions and targets for S1, S2, S3 and S4 centralised in Section 2 as mentioned above.
ESRS S2 – Workers in the value chain	



ESRS S3 – Affected communities	<ul style="list-style-type: none"> • DR regarding processes to engage with stakeholders about impacts, and DR regarding processes to remediate and channels to raise concerns centralised in Section 2 as mentioned above. • Only metrics (S1) were kept in Section 4, with the following specific simplifications compared to ESRS set 1 EFRAG (November 2022): <ol style="list-style-type: none"> 1) DR S1-1 Characteristics of employees. The following datapoints were deleted: <ul style="list-style-type: none"> - Breakdown by region for the report by headcount or full time equivalent (for permanent, temporary and non-guaranteed employees). - Total number and rate of own employee turnover in headcount. - Contextual information 2) DR S1-2 Characteristics of non-employees: <ol style="list-style-type: none"> a. Deleted: <ul style="list-style-type: none"> - Description of the type of work they perform - Contextual information b. Provision included: <ul style="list-style-type: none"> - In case estimates cannot be produced following characteristics of information, it shall state this to be the case. c. Changed to may: <ul style="list-style-type: none"> - Description as to whether it engages non-employees directly or through a third party. 3) DR S1-3 Collective bargaining coverage and social dialogue. The following datapoints were deleted: <ul style="list-style-type: none"> - Estimate of the coverage rate for non-employees. - Breakdown for each country where the undertaking has significant employment, of whether it has one or more collective bargaining agreements and the percentage covered by such agreements. - Information in relation to social dialogue.
ESRS S4 – Consumers and end-users	



	<ol style="list-style-type: none">4) DR S1-4 Adequate wages. The following datapoints changed to may:<ul style="list-style-type: none">- Percentage of own workforce paid below de adequate wage, with a breakdown for employees and non-employee workers.5) DR S1-5 Social protection. The following datapoints changed to may:<ul style="list-style-type: none">- Countries where workers do not have social protection with regard to one or more types of events.- Type of employees and non-employees who do not have social protection, for each of those countries.6) DR S1-6 Training indicators. The following datapoints were deleted:<ul style="list-style-type: none">- Percentage of employees that participated in regular performance and career development reviews.- Breakdown by employee category on the average number of training hours.- The option to provide information for non-employee workers.7) DR S1-7 Health and safety indicators. Only SFDR indicators were kept.8) DR S1-8 Compensation indicators. The following datapoints were deleted:<ul style="list-style-type: none">- Contextual information9) DR S1-9 Incidents, complaints and severe human rights impacts and incidents. The following datapoints were deleted:<ul style="list-style-type: none">- Number of complaints filed for social and human rights matters besides discrimination.- Contextual information10) DR S1-10 Diversity indicators:<ul style="list-style-type: none">- Merged Diversity indicators and Persons with disabilities.- From Diversity indicators, the distribution of employees was moved to AR as a voluntary disclosure.- From Persons with disabilities, the voluntary disclosure of a gender breakdown was deleted.11) VR S1 Work-life balance:
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	<ul style="list-style-type: none"> - This DR in S1 was changed to a voluntary disclosure for LSME.
<p>ESRS G1 – Business conduct</p>	<p>Section 5 – Business conduct</p> <ul style="list-style-type: none"> • The working paper for Section 5 has been defined according to: <ul style="list-style-type: none"> ○ -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.

Changes due to EC Delegated Acts ESRS set 1 that affect the LSME working paper

25 Following the publication of the EC Delegated Acts on 9 June 2023, the secretariat is currently incorporating changes due to the aligement with new text ESRS set1 . The revised LSME working papers will be presented at the SR TEG on 21 June.

Questions for EFRAG SR TEG

1. Does EFRAG SR TEG agree with the proposed elements illustrated above to design the basis for conclusions? Are in your view all salient aspects addressed? Or is there any additional element you suggest to consider?



Appendix

List of public meetings

- [EFRAG SR TEG Meeting 17 January 2023 - EFRAG](#) on the LSME approach and decision tree.
- [EFRAG SR TEG meeting 25 January 2023 - EFRAG](#) on the LSME approach and decision tree (continuation of 17 January).
- The discussion of SR TEG [EFRAG SR TEG meeting 30 January 2023 - EFRAG](#) on the LSME approach (continuation of 17 January).
- The discussion of SR TEG [EFRAG SR TEG Meeting 02 February 2023 - EFRAG](#) on LSME Section 1 “General requirements and Section 2 “General Disclosures”.
- The discussion of SR Board [EFRAG SRB Meeting 07 February 2023 - EFRAG](#) on LSME.
- The discussion of SR TEG [EFRAG SR TEG Meeting 21 February 2023 - EFRAG](#) on the working papers of the LSME ESRS.
- The discussion of SR Board [EFRAG SRB meeting 08 March 2023 - EFRAG](#) on the draft LSME ESRS V1.
- The discussion of SR TEG [EFRAG SR TEG Meeting 13 March 2023 - EFRAG](#) on the draft LMSE ESRS V2.
- The discussion of SR Board [EFRAG SRB meeting 22 March 2023 - EFRAG](#) on the draft LSME ESRS V2.
- The discussion of SR TEG [EFRAG SR TEG Meeting 3 April 2023 - EFRAG](#) on the draft LSME ESRS V2.1 . [In this session you can find the latest public working papers of the LSME ESRS.](#)

List of internal meeting/drafting sessions

- 1st EWG meeting (19 December 2022): SMEs workstream and building blocks approach, LSME and VSME approach and prioritisation of work.
- SR TEG (19 January 2023): approach taken by ex PTF Cluster 8 and the C8 proposal on voluntary standard for SMEs.
- 2nd EWG meeting (19 January 2023): LSME and VSME.
- LSME Community workshop (27 January 2023): presentation of the outcome of the questionnaire sent to the LSME community members and additional questions regarding LSME.



- VSME Community workshop (31 January 2023): presentation of the outcome of the questionnaire sent to the VSME Community members and additional questions regarding VSME.
- SR TEG (2 February 2023): breakout sessions for drafting on LSME topical sections.
- 3rd EWG meeting (9 February 2023): discussion on LSME and VSME Communities questionnaires and LSME working papers.
- LSME Community workshop (24 February 2023): session with preparers and financial market participants.
- 4th EWG meeting (8 March 2023): Discussion on VSME Community feedback and LSME working papers.
- SR TEG (24 April 2023): drafting session to discuss written feedback of SR TEG on LSME.
- 5th EWG meeting (5 May 2023): debrief EWG on LSME progress.
- European Issuers Smaller issuers committee (9 May 2023).
- SR TEG (12 May 2023): approval of new proposals on LSME Section 1 and 2 and discussion of SR TEG feedback in Section 3

