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[draft] LSME V3.1 SR TEG and SRB Summary of detailed comments

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Description

1. This paper provides a summary of the comments that EFRAG Secretariat highlighted as key discussion points for the SR TEG meeting of 12 September 2023 (14 SR TEG members provided feedback).
2. EFRAG secretariat suggests that SR TEG discussions focus on the comments that have been identified as pending, either because i) there are conflicting views, or ii) they are new proposal compared to draft text in in LSME and VSME or iii) further clarification is needed.
3. These comments are illustrated below. SR TEG may refer to agenda paper 03-02 – LSME V3.1 Comment log SR TEG and SRB feedback for a detailed view of the LSME feedback.



To be further discussed with SR TEG (per LSME section)

Section 1 - General requirements (5 points):

Content	Comment	Proposed new draft	Secretariat proposal/ comments	Action
<p>Entity-specific</p> <p>16. In addition to the disclosure requirements laid down in the sections described in paragraph 9, when an undertaking concludes that an impact or risk is not covered or not covered with sufficient granularity by a section of this standard but is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking's sustainability-related impacts and risks. Application requirements AR 1 to AR 4 provide further guidance regarding entity-specific disclosures.</p>	<p>From SRT:</p> <p>I do not agree with entity specific disclosures for SMEs, all content in this regard should be dropped in my view. The standard will be very comprehensive, and it is still hard to imagine what else should an SME include in its sustainability reporting.</p> <p>From SRB (3 comments):</p> <ol style="list-style-type: none"> 1) It is an important element and would not make sense to delete. Expectations may however be adjusted to the scope of complexity/granularity. 2) Entity specific is indeed valuable information for investors but for LSME's this decision should be left to the discretion of the company / I disagree with a) the "shall" on entity - specific disclosures 3) For LSME, entity specific disclosure should be voluntary. 		<p>The topic on entity specific has already been discussed several times.</p> <p>Consistent with the outcome of those discussions, the Secretariat proposes to keep the entity specific dimension. This is the same requirements as for large undertakings, to avoid unfair treatment of LSMEs' investors compared to what they get for large undertakings.</p>	<p>Does SR TEG confirm the Secretariat proposal?</p>
<p>3.2 Material matters and materiality of information</p>	<p>SRT:</p>	<p>Delete</p>	<p>To be aligned with Set 1 (DA July there is new regime for Climate</p>	<p>Does SR TEG confirm the</p>



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<p>38. If the undertaking concludes that a topic is not material and therefore it omits all the Disclosure Requirements in a topical section of this [draft] ESRS, it may briefly explain the conclusions of its materiality assessment for the topic (see Section 2 of this [draft] ESRS IR-2 Disclosure Requirements in ESRS covered by the undertaking’s sustainability statements).</p>	<p>The whole para is not necessary, should be deleted because this is one of the candidates I think we could release SMEs from.</p> <p>Even if 38 contains a may, I do not feel this is important to be disclosed because this is already subject to the audit. I.e. the undertaking has to discuss that with the auditor who I think is more capable to judge that than the public users of the sustainability statement.</p>		<p>change and EU datapoints). Secretariat proposal is to match the text of Set1.</p>	<p>Secretariat proposal?</p>
<p><u>3.2 Material matters and materiality of information</u> 39. When reporting on metrics, and when disclosing the datapoints that derive from other EU legislation listed in Appendix B of Section 2, if the undertaking omits information prescribed by either a Disclosure Requirement or a datapoint of a Disclosure Requirement in the Metrics paragraph of a topical section of this [draft] ESRS, such information is considered to be implicitly reported as “not material for the undertaking”.</p>	<p>The para should be deleted as well as there is no information attached to it.</p> <p>Or is this somehow necessary to limit the gap between ESRS and SFDR PAIs? If it is meant to be I am highly unsure whether the gap can really be bridged by this paragraph.</p> <p>In addition: What about datapoints that must not be disclosed because they fall under the scope of the trade secrets directive or under chapter 6.6 on classified information and so on. In this case the undertaking omits a datapoint but the reason for the omission might have nothing to do with lack of materiality. It could be the case but not necessarily.</p>	<p>Delete</p>	<p>To be aligned with Set 1 (DA July there is new regime for Climate change and EU datapoints) Secretariat proposal is to match the text of Set1.</p> <p>To be discussed if we can further simplify for LSME.</p>	<p>Does SR TEG confirm the Secretariat proposal?</p>



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	I don't think we should make this statement in para 39.			
<p>3.7 Level of disaggregation</p> <p>57. When needed for a proper understanding of its material impacts and risks, the undertaking shall disaggregate the reported information:</p> <p>(a) by country, when there are significant variations of material impacts and risks across countries and when presenting the information at a higher level of aggregation would obscure material information about impacts and risks; or</p> <p>(b) by significant site or by significant asset, when material impacts and risks are linked to a specific location or asset.</p>	<p>SRT:</p> <p>The part 3.7 level of disaggregation should be deleted (at least paragraph 57. (a)) or made optional in line with proportionality principle. Disaggregation is less relevant for LSMEs as their geographical scale is generally limited.</p> <p>SRB (1 comment):</p> <p>On materiality I believe that 3.7 Level of disaggregation is too onerous and non-applicable given that the standards regard SMEs. Rather than copying the text from large undertakings, I would suggest to include just one short consideration that says that only in case material impacts and risks occur in a specific material business of the SME or in a specific material geography, the SME would be requested/required to mention such impacts and/or risks separately</p>		<p>The principle of 3.7 needs to be included. It could be further simplified in the below:</p> <p><i>57. When needed for a proper understanding of its material impacts and risks, the undertaking shall disaggregate the reported information in a way that reflects the appropriate level at which significant variations of material impacts and/or risks materialise, such as in specific sites.</i></p>	Does SR TEG confirm the Secretariat proposal?
<p>4.1 Reporting undertaking and value chain</p> <p>64. When associates or joint ventures, accounted for under the equity method or proportionally consolidated in the financial statements, are part of the undertaking's value chain, the undertaking may include information related to those undertakings, following paragraph 4, consistent with the</p>	<p>2 SRT comments:</p> <p>1) Paragraph 64 should be deleted, as it does not provide useful precision for LSMEs given that information outside the financial consolidation will</p>	Delete	<p>LSME may also have investments in associates or JV, so the general principle should stay.</p> <p>Proposed re-wording:</p> <p><i>64. When associates or joint ventures, accounted for under the equity method or proportionally</i></p>	Partially Accepted / Does SR TEG agrees with the EFRAG Secretariat proposal?



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<p>approach adopted for the other business relationships in the value chain. In this case, when determining impact metrics, the data of the associate or joint venture are not limited to the share of equity held, but taken into account on the basis of the impacts that are directly linked to the undertaking's products and services through its business relationships.</p>	<p>be rare and small for LSMEs in any case.</p> <p>2) The standard needs to be consistent with the accounting for the separate undertaking (separate financial statements), but the rules are different across jurisdictions. In financial statements under IFRS it is possible to see associated entities or other investments accounted for at equity. However, for example, in Germany, you will not find the "at equity method" in separate financial statements. In addition, proportional consolidation is nothing you will find in separate financial statements of any jurisdiction as this is a matter for group accounting only. I would drop that paragraph as it is not consistent to the "single entity notion" of the LSME standard.</p> <p>SRB (1 comment): Par 64 does not fit for purpose for the (vast majority of the) SMEs. I would suggest to tailor this to the typical SME's situation.</p>		<p><i>consolidated in the financial statements, are part of the undertaking's value chain, the undertaking may include information related to those undertakings, following paragraph 4, consistent with the approach adopted for the other business relationships in the value chain. In this case, when determining impact metrics, the data of the associate or joint venture are not limited to the share of equity held, but taken into account on the basis of the impacts that are directly linked to the undertaking's products and services through its business relationships.</i></p>	



Additional Topic to discuss at SR TEG as emerged from the LSME SRB Questionnaire – Value chain cap

4. The Survey results showed that the approach to the value chain cap is not clear for all SRB members.
5. Half of the respondents indicated that this concept in the decision tree is not clear and requires to be better explained, in particular what defines the value chain cap and on what basis it applies.
6. The Secretariat underlines that at the beginning of the drafting the SRB agreed to use the value chain cap as a driver for the content (as part of the decision tree). This concept is illustrated below:
 - a. The sustainability reporting standards for large undertakings 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 LSME ESRS (art 29b 4). We refer to this as the '**value chain cap**', i.e. the disclosures in LSME ESRS determine what is the maximum detail of information that large undertakings shall be required to collect from SMEs in their value chain in order to prepare their ESRS sustainability statement.
 - b. To implement this provision, **the LSME Exposure Draft has been developed in a way that preserves the integrity of the value chain information to be disclosed by large undertakings**, as defined in the Delegated Act issued by the European Commission in July 2023 (in this sense it is an integral component of the decision tree).
 - c. The content of the ESRS for large undertakings issued as Delegated Act in July 2023 has been deeply scrutinised during the drafting of LSME, to separately identify the disclosures for which obtaining value chain information is deemed essential in order to fulfil the policy objectives and to meet the users' needs for the reporting of large undertakings. **These datapoints have been included in LSME ESRS, in order to enable large undertaking to collect the necessary data.**



Section 2 and 3 - General Disclosures and Policies, Actions, Targets, Engagement and Remediation (8 points)

Content	Comment	Proposed new draft	Secretariat preliminary view	Action
<p><u>(GOV-1) – The role of the administrative, management and supervisory bodies</u> 18. 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>SRB General comment G1: Disclosure on G1 could be further simplified, by requiring only the information required in the draft VSME.</p>		<p>To be discussed at TEG.</p> <p>For the building blocks approach LSME has additional requirements</p>	<p>Discuss and agree in SRT</p>
<p><u>(SBM-1) – Strategy, business model and value chain</u> 30. The undertaking shall disclose the following information about the key elements of its general strategy that relate to or affect sustainability matters: (d) its sustainability-related goals. If applicable, in terms of significant groups of products and services, customer</p>	<p>SRT: Par 30. (d) and (e) should be deleted as this information is covered by the disclosure requirement SBM-3 on material impacts and risks and their interaction with strategy and business model(s) as well as disclosures on sustainability policies, actions, resources and targets.</p>		<p>To be discussed the necessity of points d) and e)</p>	<p>Discuss and agree in SRT</p>



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categories, geographical areas and relationships with stakeholders; and (e) an assessment of its current significant products and/or services, and significant markets and customer groups, in relation to its sustainability-related goals.				
<p><u>(SBM-1) – Strategy, business model and value chain</u></p> <p>31. The undertaking shall disclose a description of its business model and value chain, including:</p> <p>(a) its inputs, outputs and outcomes (in terms of current and expected benefits for its stakeholders)</p> <p>(b) 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</p> <p>(c) the subsidiaries that are connected with material impacts and risks.</p>	<p>SRT: The reference to the main business actors and their relationship to the undertaking is too detailed for LSMEs, as they generally have a limited number of business partners, which may result in disclosing competitive information on suppliers or customers.</p> <p>SRB (1 comment): I tend to disagree with par 31 as being too complex for SMEs and not at all appreciative of their language and (lack of) complexity. In addition, they tend not to have 'subsidiaries' as under c) - so suggest to change to 'If applicable, the subsidiaries etc'.</p>	<p><i>31. The undertaking shall disclose a description of its business model and value chain, including:</i></p> <p><i>(a) its inputs, outputs and outcomes (in terms of current and expected benefits for its stakeholders);</i></p> <p><i>(b) 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><i>(c) the subsidiaries that are connected with material impacts and risks.</i></p>	<p>On SRT comment: To be discussed at TEG. Is not enough the word "key"?</p> <p>On SRB comment: to discuss at TEG how we can further simplify</p>	Discuss and agree in SRT
<p><u>(SBM-2) – Interests and views of stakeholders</u></p> <p>34. When the undertaking engages with its key stakeholders, it shall disclose a summarized description of:</p>	<p>SRT: Paragraph 34 (a) should be simplified by modifying i. "the undertaking's key stakeholders and their views and interests", ii. "whether and how</p>	<p>SRT member proposal:</p> <p>34. When the undertaking engages with its key stakeholders, it shall disclose a summarised description of its</p>	<p>On SRT comment: Already discussed at TEG. Point c) is already “where applicable”</p> <p>On SRB comment:</p>	Discuss and agree in SRT

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<p>(a) its stakeholders engagement, including:</p> <p>i. the undertaking's key stakeholders;</p> <p>ii. whether engagement with them occurs and for which categories of stakeholders;</p> <p>iii. how it is organised;</p> <p>iv. its purpose; and</p> <p>v. how its outcome is taken into account by the undertaking;</p> <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(s), to the extent that these were analysed during the materiality assessment process (see Disclosure Requirement IR-1 of this [draft] ESRS); and</p> <p>(c) where applicable, amendments to its strategy and/or business model, including:</p> <p>i. how the undertaking has amended or expects to amend its strategy and/or business model(s) to address the interests and views of its stakeholders, including any further steps that are being planned and in what timeline; and</p> <p>ii. whether these steps are likely to modify the relationship with and views of stakeholders.</p>	<p>engagement with them occurs and for which categories of stakeholders", and by deleting iii. to v.</p> <p>Paragraph 34 (b) should be moved and integrated into paragraph 34 (a) i. for simplification.</p> <p>Paragraph 34 (c) should be deleted in line with the proportionality principle.</p> <p>SRB: SBM-2:in my view, given the requirement in GOV 1, SBM-2 should include 'd) whether a governance body or individual responsible for oversight of sustainability risks and impacts is informed' - as this is an important element in the oversight and implementation of the strategy</p>	<p>stakeholders engagement, including:</p> <p>(a) the undertaking's key stakeholders, and their views and interests;</p> <p>(b) whether engagement with them occurs and for which categories of stakeholders;</p>	<p>to be discussed. This reference has been already included in Gov-1.</p>	
<p><u>(SMB-3) - Material impacts and risks and their interaction with strategy and business model</u></p>	<p>SRT 1st comment: Paragraph 37 (a) ii. and iii. should be deleted for</p>	<p>SRT 1st commenter proposal: 37. The undertaking shall disclose its material impacts and risks resulting from its</p>	<p>Already discussed at TEG.</p> <p>Stick to approach as in Set 1</p>	<p>Not accepted.</p> <p>Does SR TEG agrees with the</p>

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<p>37. The undertaking shall disclose its material impacts and risks resulting from its materiality assessment (see Disclosure Requirement IR-1 of this [draft] ESRS). The disclosure shall include the following:</p> <p>(a) the undertaking’s material negative impacts and risks, including:</p> <p>i. a brief description of how its material impacts affect (or, in the case of potential impacts, are likely to affect) people or the environment;</p> <p>ii. whether and how its material impacts originate from or are connected to the undertaking’s strategy and business model;</p> <p>iii. whether the undertaking is involved with the material impacts through its activities or because of its subsidiaries or other business relationships (describing the nature of the activities or business relationships concerned and where in its value chain material impacts are concentrated);</p> <p>(b) the effects of material impacts and risks 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;</p>	<p>simplification in line with the proportionality principle.</p> <p>Paragraph 37 (c) should be deleted in line with the proportionality principle. Current effects of impacts and risks on strategy are already required. Future effects at strategic level should be entity-specific given the reporting complexity (and anticipated financial effects are already required for environmental topics).</p> <p>Paragraph 37 (d) should be merged with paragraph 37 (b) for simplification, as they both require the effects of impacts and risks on strategy on one hand and on financial position, performance and cashflows on the other hand. Furthermore, details of paragraph 37 (d) should be deleted for LSMEs (e.g., adjustment within the next annual reporting period to carrying amounts of assets and liabilities).</p> <p>NB. The difference between disclosure requirements SBM-3 par 37 (e) and DR in Section 4 on anticipated financial effects</p>	<p>materiality assessment (see Disclosure Requirement IR-1 of this [draft] ESRS). The disclosure shall include the following:</p> <p>(a) the undertaking’s material negative impacts and risks, including a brief description of how its material impacts affect (or, in the case of potential impacts, are likely to affect) people or the environment;</p> <p>(b) the current and anticipated effects of material impacts and risks on its strategy and decision-making as well as on its financial position, financial performance and cash flows, including how the undertaking is responding to these effects;</p> <p>(c) specification of those impacts and risks that are covered by Disclosure Requirements included in this [draft] ESRS as opposed to those covered by the undertaking using additional entity-specific disclosure.</p> <p>SRT 3rd commenter proposal: Reintroduce: "iii. the reasonably expected time horizons for those effects;"</p>	<p>SBM 3 is among the most important disclosures in ESRS.</p> <p>Cutting where the impact/risk arises in value chain-own operations, how the undertaking has reacted to impacts/risks and the effects on strategy-business model-cash flows would omit essential information.</p>	<p>Secretariat proposal?</p>

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<p>(c) 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, subsidiaries, or in its upstream and downstream value chain material risks 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 have affected the undertaking's most recently reported financial performance, financial position and cash flows; and the material impacts and risks 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-</p>	<p>is not framed explicitly, which reduces understandability for new reporters: SBM-3 is linked to financial effects of risks material in relation to strategy and business model vs. DR in topical section on anticipated financial effects from material risks is linked to financial effects of sustainability risks material in relation to activities, assets and liabilities? Financial estimation of future net sustainability risks does not rely on mature methodology and should be removed.</p> <p>Paragraph 37 (f) should be deleted in line with the proportionality principle.</p> <p>SRT Observer comment:</p> <p>a) The point about "reasonably expected time horizons" has been removed from point (a) but information about the timing of material impacts would seem important for users.</p> <p>SRT 3rd comment:</p> <p>Not clear why the requirement to describe the expected time horizons in which the impacts on people and environment</p>			



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<p>term. This may include a brief description of:</p> <ul style="list-style-type: none"> 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 ii. its planned sources of funding to implement its strategy. <p>(f) changes to the material impacts and risks compared to the previous reporting period; and</p> <p>(g) specification of those impacts and risks that are covered by Disclosure Requirements included in this [draft] ESRS as opposed to those covered by the undertaking using additional entity-specific disclosure.</p>	<p>will materialize has been deleted from the list. This is important to characterize and understand the material impact.</p> <p>SRB (1 comment): par 37 I know that this is aligned with the large undertakings' standards, but this seems to me far too complex to grasp for the average SME, so suggest to simplify or explain in simple terms in the AR</p>			
<p><u>(IR-1) - Processes to identify and assess material impacts and risks</u></p> <p>47. The undertaking shall disclose the following information:</p> <p>(a) an overview of the process(es) to identify, assess and prioritise the undertaking's potential and actual negative impacts on people and the environment based on their relative severity and likelihood (see [draft] section 1, chapter 3.4 Impact materiality). The undertaking may also include an explanation of whether and how the process:</p>	<p>SRT 1st comment:</p> <p>Paragraph 47 (a) i. to iv. should be deleted for simplification (geographical scope of LSMES is limited in relation to i.; stakeholders are covered in SBM 2 in relation to iii.; guidance on materiality assessment will address ii. and iv.) or moved to AR as points i. to iv. are voluntary.</p> <p>Paragraph 47 (b) i. and ii. should be deleted (guidance</p>	<p>SRT 1st commenter proposal:</p> <p>47. The undertaking shall disclose the following information:</p> <p>(a) an overview of the process(es) to identify, assess and prioritise the undertaking's potential and actual negative impacts on people and the environment based on their relative severity and likelihood (see [draft] section 1, chapter 3.4 Impact materiality);</p>	<p>The structure of the paragraph has to be adjusted to reflect the final DA.</p> <p>47 a i to iv to stay as they are already optional.</p> <p>47 b i and ii to stay as they are already optional.</p> <p>The general approach that the EFRAG Secretariat has taken to the placement of 'may' is to leave the content where it is in Set 1, as the reconciliation with the corresponding requirement in Set 1 is more</p>	<p>Does the SR TEG agrees with the EFRAG Secretariat?</p>

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<p>i. focusses on specific areas due to heightened risk of adverse impacts;</p> <p>ii. considers the impacts with which the undertaking is involved through its own operations or as a result of its business relationships, including its subsidiaries;</p> <p>iii. include(s) consultation with affected stakeholders to understand how they may be impacted and with external experts; and</p> <p>iv. prioritises negative impacts based on their relative severity and likelihood, (see [draft] Section 1 chapter. 3.4 Impact materiality) 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.</p> <p>(b) an overview of the process to identify, assess and prioritise risks that could be expected to have financial effects (see draft Section 1 chapter 3.5 Financial materiality). The undertaking may also include a description on:</p> <p>i. how the undertaking assesses the likelihood, magnitude, and nature of effects of the identified risk (such as the qualitative or quantitative thresholds and other criteria used as prescribed by Section 1 chapter 3.5 Financial materiality); and</p> <p>ii. how the undertaking prioritises sustainability-related risks relative to</p>	<p>on materiality assessment will address i. and ii.) or moved to AR as points i. and ii. are voluntary.</p> <p>Paragraph 47 (d) should be deleted in line with the proportionality principle.</p> <p>SRT 2nd comment: The shall requirement of para. 47 (a) should also include whether and how an undertaking considers the impacts with which the undertaking is involved through its own operations or as a result of its business relationships.</p>	<p>(b) an overview of the process to identify, assess and prioritise risks that could be expected to have financial effects (see draft Section 1 chapter 3.5 Financial materiality);</p> <p>(c) the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions).</p> <p>SRT 2nd commenter proposal: 47. The undertaking shall disclose the following information:</p> <p>(a) an overview of the process(es) to identify, assess and prioritise the undertaking’s potential and actual negative impacts on people and the environment, including:</p> <p>i. how it prioritises impacts based on their relative severity and likelihood (see [draft] section 1, chapter 3.4 Impact materiality) 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), and</p>	<p>important in a logic of building blocs than moving content to AR.</p> <p>47 (d) changes from previous period is a relevant information so it should stay.</p> <p>To be discussed the proposals in red. Compared to Set 1, there are some details that are ‘may’ in LSME. These proposals move some of them to ‘shall’.</p>	<p>Does EFRAG SR TEG agrees with the proposed changes in red (move from may to shall)?</p>

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<p>other types of risks, including its use of risk-assessment tools. (c) the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions);and (d) 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>ii. considers the impacts with which it is involved through its own operations or as a result of its business relationships, including its subsidiaries.</p> <p>The undertaking may also include an explanation of whether and how the process:</p> <p>i. focusses on specific areas due to heightened risk of adverse impacts; ii. considers the impacts with which the undertaking is involved through its own operations or as a result of its business relationships, including its subsidiaries; iii. include(s) consultation with affected stakeholders to understand how they may be impacted and with external experts; and iv. prioritises negative impacts based on their relative severity and likelihood, (see [draft] Section 1 chapter. 3.4 Impact materiality) and determines which sustainability matters are material for reporting purposes (including the qualitative or quantitative</p>		
<p><u>(IR-4) – Targets in relation to sustainability matters</u></p>	<p>SRT 1st comment: More information should be required to be disclosed when</p>	<p>SRT 1st commenter proposal: 66. The undertaking shall disclose whether it has set</p>	<p>1st: MDR in AR to simplify and to have all the details in one place. The idea initially was to not include MDR for LSME</p>	<p>Discuss and agree in SRT</p>

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<p>66. The undertaking shall disclose whether it has set targets with regards to each material sustainability matter.</p>	<p>disclosing targets (target year, value, unit, etc.). Such information is currently mentioned in AR, but it could be moved directly to main body to have all the key aspects in one area.</p>	<p>targets with regards to each material sustainability matter. When describing its targets, the undertaking shall disclose the scope of the target, the unit, the target year and value, the base year and value, and what has been achieved so far.</p> <p>SRT 2nd commenter proposal: 66. The undertaking shall explain how the targets it has set relate to its material sustainability matters or why it has not set a target for a material sustainability matter.</p>	<p>2nd: to be discussed at TEG. The TEG decision was to have the disclosure on targets only on voluntary basis. With this sentence we are going to ask more. Furthermore, this para should be read in conjunction with para 67</p>	
<p><u>Application Requirement approach for Policies, Actions and Targets</u></p>	<p>Comments received by SR TEG suggesting to turn some “shall disclose” or “shall consider” ARs in Policies, Actions and Targets into “may”</p>		<p>to define a rule. turning a number of "shall" requirements to "may"?</p>	<p>Discuss and agree in SRT</p>





Section 4 – Environment (6 points)

Content	Comment	Proposed new draft	Secretariat preliminary view	Action
<p><u>Energy intensity based on net revenue</u> 11. The undertaking shall disclose the reconciliation to the relevant line item or notes in the financial statements of the net revenue amount from activities in high climate impact sectors (the denominator in the calculation of the energy intensity required by paragraph 8).</p>	<p>SR TEG: All reconciliations with financial statements should be deleted or deferred for LSMEs, as they are burdensome and do not provide a lot of value for LSMEs.</p> <p>SRB (1 comment): I believe the requirement in par. 11 is too onerous for an SME. For this indicator as for GHG emissions, I understand link to SFDR, but can be calculated very quickly by the user himself so to simplify take this out?</p>		<p>Proposal to phase-in the reconciliations by 1 year.</p>	<p>Discuss and agree in SRT</p>
<p><u>E1-2– Gross Scopes 1, 2, 3 and Total GHG emissions</u> 20. The disclosure of total GHG emissions required by paragraph 12(d) shall be the sum of Scope 1, 2 and 3 GHG emissions required by paragraphs 12(a) to 12(c). The total GHG emissions shall be disclosed with a disaggregation that makes a distinction of: (a) the total GHG emissions derived from the underlying Scope 2 GHG emissions being measured using the location-based method; and (b) the total GHG emissions derived from the underlying Scope 2 GHG emissions being measured using the market-based method.</p>	<p>SRT: The disaggregation between location and market based is not needed as it won't be a usual practice for LSMEs to purchase green electricity. It should be entity specific if they have purchased green electricity.</p>	<p>20. The disclosure of total GHG emissions required by paragraph 12(d) shall be the sum of Scope 1, 2 and 3 GHG emissions required by paragraphs 12(a) to 12(c). The total GHG emissions shall be derived from the underlying Scope 2 GHG emissions being measured using the location-based method.</p> <p>Secretariat proposal: "20. The disclosure of total GHG emissions required by paragraph 12(d) shall be the sum of Scope 1, 2 and 3 GHG emissions required by paragraphs 12(a) to 12(c). The undertakings shall note if the Scope 2 GHG emissions used for the total S1+2+3 emissions have been calculated</p>	<p>There are many small businesses and even individuals that buy green tariff supported by certificates. In many cases the difference on Total S1+2+3 is a bit irrelevant - and in others very relevant. An alternative is to allow companies to just report one number, giving them the choice on which number they wish to report, but this will reduce comparability.</p>	<p>Discuss and agree in SRT</p>



Content	Comment	Proposed new draft	Secretariat preliminary view	Action
		<i>using the location or the market-based method."]</i>	<p>In all cases, the users of information will have the data to calculate the other number.</p> <p>This, however, may be a contentious proposal. If it is only a report of the location-based total – it should be based on an argument that this would enhance the harmonization and comparability of those figures.</p>	
<p><u>E1-2– Gross Scopes 1, 2, 3 and Total GHG emissions</u> 22. The undertaking shall disclose the reconciliation to the relevant line item or notes in the financial statements of the net revenue amounts (the denominator in the calculation of the GHG emissions intensity required by paragraph 21).</p>	<p>SRT: All reconciliations with financial statements should be deleted or deferred for LSMEs, as they are burdensome and do not provide a lot of value for LSMEs.</p>		<p>Proposal to phase-in the reconciliations by 1 year.</p>	<p>Discuss and agree in SRT</p>
<p><u>E4-1 – Impact metrics related to biodiversity and ecosystems change</u> 53. If the undertaking has concluded that it directly contributes to the impact drivers of land-use change, freshwater-use change and/ or sea-use change, the undertaking shall report relevant metrics. The undertaking may disclose metrics that measure: (a) the conversion over time (e.g., one or five years) of land cover (e.g., deforestation or mining); (b) changes over time (e.g., one or five years) in the management of the ecosystem (e.g., through the intensification of agricultural management, or the application of better management practices or forestry harvesting);</p>	<p>SRT: Limiting biodiversity indicators to those that drive biodiversity impacts is insufficient. I understand the need for simplification but we should not drop the notion of invasive or alien species and ecosystem extent and condition. See proposal for a simplified version.</p>	<p>Add new para 54.: The undertaking may disclose additional metrics related to the introduction of invasive or alien species or the ecosystem condition and extent.</p>	<p>Same comment also from 2 TEG members answering the SRB survey (do not delete invasive species). It would be same as for set 1</p>	<p>Not accepted / inform SRT</p>

Content	Comment	Proposed new draft	Secretariat preliminary view	Action
(c) changes in the spatial configuration of the landscape (e.g., fragmentation of habitats, changes in ecosystem connectivity); (d) changes in ecosystem structural connectivity (e.g., habitat permeability based on physical features and arrangements of habitat patches); and (e) the functional connectivity (e.g., how well genes or individuals move through land, freshwater and seascape).				
E5-2 – Resource outflows 62. The undertaking for which outflows are material shall disclose: (a) The expected durability of the products placed on the market by the undertaking, in relation to the industry average for each product group; (b) The reparability of products, using an established rating system, where possible; (c) The rates of recyclable content in products and their packaging.	SRB (1 comment): in par. 62 we ask for 'expected durability of product against industry average'. I doubt whether this is doable for an SME and/or results in meaningful/good quality information		Noted the difficulty of datapoint even if LSME are sophisticated SMEs, if material it would important to report, to discuss SR TEG.	Discuss and agree in SRT
E1-4– Anticipated financial effects from material physical and transition risks and potential climate-related opportunities 29. The disclosure of anticipated financial effects from material physical risks required by paragraph 27 (a) shall include : (a) the monetary amount and proportion (percentage) of assets at material physical risk over the short-, medium- and long-term time horizons; with the monetary amounts of these assets disaggregated by acute and chronic physical risk ;	SRB (1 comment): I believe that for par 29 in particular c and d are too complicated for an SME and not really meaningful; suggest to remove or make it optional.		Suggest to keep it as it is required by Pillar 3 (EU Datapoint).	Not accepted- inform SR TEG



Content	Comment	Proposed new draft	Secretariat preliminary view	Action
(b) the proportion of assets at material physical risk addressed by the climate change adaptation actions; (c) the location of significant assets at material physical risk ; and (d) the monetary amount and proportion (percentage) of net revenue from its business activities at material physical risk over the short-, medium- and long-term.				

Section 5 – Social (8 points)

Content	Comment	Proposed new draft	Secretariat preliminary view	Action
<p><u>S1-1 – Characteristics of the undertaking’s employees</u></p> <p>9. The disclosure required by paragraph 7 shall include:</p> <p>(a) the total number of employees by head count, and breakdowns by gender and by country for countries in which the undertaking has 50 or more employees representing at least 10% of its total number of employees;</p> <p>(b) the total number by head count or full time equivalent (FTE) of:</p> <p>i. permanent employees, and breakdown by gender;</p> <p>ii. temporary employees, and breakdown by gender; and</p> <p>iii. non-guaranteed hours employees, and breakdown by gender.</p>	<p>SRT:</p> <p>The description of the methodologies and assumptions in paragraph 9 (c) should be deleted as it will always be the case for metrics. Alternatively, it should be moved to AR and harmonised across all topics. The calculation options of headcount or by full time equivalent (FTE) may raise comparability issue. Moreover, there is no application guidance on these two methodologies in the corresponding AR. The FTE methodology should be favored, and application guidance on the methodologies should be added. If the two calculation options remain, the</p>	<p>9. The disclosure required by paragraph 7 shall include:</p> <p>(a) the total number of employees by head count, and breakdowns by gender and by major country;</p> <p>(b) the total number by full time equivalent (FTE) or head count of:</p> <p>i. permanent employees;</p> <p>ii. temporary employees and non-guaranteed hours employees.</p> <p>To be moved to AR:</p> <p>In preparing the disclosure required by paragraph 9. (b), the undertaking shall consider reporting the number of employees in full-time equivalent (FTE). If the</p>	<p>Contradicting suggestions.</p> <p>On SRT comment:</p> <p>To discuss with SRT the suggestion about deleting or moving to AR "description of methodologies and assumptions", as well as the issue of comparability by having the headcount and FTE options for reporting.</p> <p>On SRB comment:</p> <p>This was part of our original simplification proposal.</p>	<p>To discuss and agree with the SRT about deleting or moving to AR "description of methodologies and assumptions", as well as the issue of comparability by having the headcount and FTE options for reporting.</p>



Content	Comment	Proposed new draft	Secretariat preliminary view	Action
<p>(c) a description of the methodologies and assumptions used to compile the data, including whether the numbers are reported:</p> <ul style="list-style-type: none"> i. in head count or full-time equivalent (FTE) (including an explanation of how FTE is defined); and ii. at the end of the reporting period, as an average across the reporting period, or using another methodology. <p>(d) where applicable, a cross-reference of the information reported under (a) above to the most representative number in the financial statements.</p>	<p>disclosure of head count or FTE should be moved to AR in any case.</p> <p>SRB (1 comment): Do not delete: - DR S1-1 Characteristics of the undertaking's employees: (c) total number and rate of employee turnover in the reporting period in the head count</p>	<p>undertaking reports employees in head count, it shall disclose this to be the case. When disclosing the information required by paragraph 9. (a) and (b), the undertaking shall disclose whether the number of employees is reported at the end of the reporting period, as an average across the reporting period, or using another methodology.</p>		
<p>S1-6 – Training and skills development metrics 31. The undertaking shall disclose the extent to which training and skills development is provided to its employees.</p>	<p>SRT: The metrics on training and skills development, remuneration, and work-life balance should be merged for simplification, as they all reflect the topics of attracting and retaining talents. This proposed structure is aligned with the VSME proposal. The disclosure requirement should be renamed as follows: "Attraction and retention of employees (training and skills development, equal remuneration)". The metrics on work-life balance should be mentioned in AR only, as they are optional. A new KPI on the employee turnover should be added to illustrate the ability of the undertaking to retain talents.</p> <p>SRB (1 comment):</p>	<p>The undertaking shall provide information about its ability to attract and retain its employees, including measures on training and skills development and equal remuneration.</p>	<p>On SRT comment: Not to merge as they form part of different sub-topics: equal opportunities and working conditions. It would be possible to merge two of them, but the objective and AR gets confusing. What's the goal of merging?</p> <p>On SRB comment: Data on trainings is a common standard practice (GRI, SASB), but adding proposal for SRT to phase-in the gender breakdown.</p>	<p>To discuss and agree with SRT about adding back the datapoint on "employee turnover".</p>



Content	Comment	Proposed new draft	Secretariat preliminary view	Action
	General comment S1-6: this is very onerous data to collate, I don't think we should ask this from SMEs also in light of materiality			
<p><u>S1-6 – Training and skills development metrics</u> 33. The disclosure required by paragraph 31 shall include the average number of training hours per employee and by gender.</p>	<p>SRT (1st comment):</p> <ul style="list-style-type: none"> The breakdown by gender should be deleted in line with proportionality principle. The current metric related to training and skills development should be questioned in terms of relevance. The proposed average number of training hours per employee is complex to monitor, and does not necessarily reflect the skills development. <p>SRT (2nd comment): From the text it is not clear if it is also expected that a list of names or at least general description of the training offered is included. If it would just be hours per employee and by gender it would be hard to understand the information.</p>	<p>SRT 1st comment proposal: 33. The disclosure required by paragraph 31 shall include: (a) the average number of training hours per employee; (b) the rate of employee turnover in head count in the reporting period; (c) the annual total remuneration ratio of the highest paid individual to the median annual total compensation for all employees (excluding the highest-paid individual).</p> <p>SRT 2nd comment proposal: 33. The disclosure required by paragraph 31 shall include a description of the kind of training and skills development and the average number of training hours per employee and by gender.</p>	<p>Contradicting suggestions.</p> <p>On 1st comment: Data on trainings is a common standard practice (GRI, SASB). Training Definition in SET 1 Annex 2, Table 2 "Initiatives put in place by the undertaking aimed at the maintenance and/or improvement of skills and knowledge of its own workers. It can include different methodologies, such as on-site training, and online training" Therefore the definition links training to skills development.</p> <p>We simplified this DR by deleting the requirement related to performance and career development reviews; the number of hours spent in training is information companies should have. Lack or less access to training and skills development can be a factor in the gender pay gap.</p> <p>On 2nd comment: Hours per employee and by gender is a common standard</p>	<p>On 1st comment: To discuss and agree with the SRT about phasing-in the gender breakdown.</p> <p>On 2nd comment: Not to require a description as well, as it goes beyond set 1. It will be resolved via implementation guidance.</p>

Content	Comment	Proposed new draft	Secretariat preliminary view	Action
			practice (GRI). The DR does not require a list of names or a general description of the training offered. The statement is clear: the number of training hours and GRI uses the same language.	
<p><u>S1-8 – Remuneration metrics (pay gap and total remuneration)</u> 40. The disclosure required by paragraph 36 shall include: (a) the gender pay gap, defined as the difference of average pay levels between female and male employees, expressed as percentage of the average pay level of male employees ; the gender pay gap in between its female and male employees expressed as percentage. The gender pay gap is defined as the difference of average pay levels between female and male employees; (b) the annual total remuneration ratio of the highest paid individual to the median annual total compensation for all employees (excluding the highest-paid individual) .</p>	<p>SRT (1 comment): To delete 40 (a) gender pay gap.</p> <p>SRB (1 comment): DR 1-8 "Remuneration metrics". (Paragraph 35 b). I am not sure this needs to be retained. If retained, I would suggest a deletion of the "ratio between the remuneration of its highest paid individual and the meridian remuneration". Otherwise, I support the deletion of the contextual information.</p>	<p>SRT: If S1-8 is kept, it should be modified as below.</p> <p>SRT: 40. The disclosure required by paragraph 36 shall include the annual total remuneration ratio of the highest paid individual to the median annual total compensation for all employees (excluding the highest-paid individual).</p>	<p>Contradicting suggestions.</p> <p>On SRT comment: Gender pay gap is in the CSRD and mandatory SFDR indicator 12, Table 1 (“Unadjusted gender pay gap”) and Benchmark Regulation section 1 and 2 of Annex 2 (“Weighted average gender pay gap”).</p> <p>On SRB comment: “Excessive CEO pay ratio” is an SFDR indicator (#8 Table 3).</p>	<p>To discuss and agree with SRT about adding that when female is less than 10% it may be biased to provide contextual information.</p>
<p><u>S1-8 – Remuneration metrics (pay gap and total remuneration)</u> 41. The undertaking may disclose a breakdown of the gender pay gap as defined in paragraph 40 (a) by employee category and/or by country/segment. The undertaking may also disclose the gender pay gap between employees by categories of employees broken down by ordinary basic salary and complementary or variable components.</p>	<p>SRT: Paragraph 41. should be deleted</p>		<p>It is a voluntary datapoint. This "may" datapoint was included (also in set 1) for contextual reasons. Also, SRTEG took a preliminary vote on keeping 'may' datapoints.</p>	<p>To discuss and agree with SRT for the whole LSME standard: the 'may' datapoints location.</p>



Content	Comment	Proposed new draft	Secretariat preliminary view	Action
<p>S1-9 – Incidents, complaints and severe human rights impacts</p> <p>44. The objective of this Disclosure Requirement is to allow an understanding of the extent to which work-related incidents and severe cases of human rights impacts are affecting its own workforce.</p>	<p>SRT:</p> <p>The wording should be more specific.</p>	<p>44. The objective of this Disclosure Requirement is to allow an understanding of the extent to which work-related incidents and severe cases of human rights impacts that are <i>reported in the reporting period</i> are affecting its own workforce.</p>	<p>This suggestion would go beyond set 1. Plan to issue guidance on this regard. Good point and noted before.</p>	<p>To issue guidance on that regard. Also, to discuss and agree with SRT about clarifying this issue in the text of the LSME standard.</p>
<p>S1-9 – Incidents, complaints and severe human rights impacts</p> <p>46. The undertaking shall disclose: (a) the total number of incidents of discrimination, including harassment, reported in the reporting period ; (b) the total amount of material fines, penalties, and compensation for damages as a result of the incidents and complaints disclosed above, and a reconciliation of such monetary amounts disclosed with the most relevant amount presented in the financial statements.</p>	<p>SRT:</p> <ul style="list-style-type: none"> Paragraph 46 (a) and (b) and paragraph 47 (a) and (b) should be merged. The reconciliations of the monetary amounts of the fines with the most relevant amount presented in the financial statements should be deleted at this stage. <p>SRT Observer:</p> <p>I do not recall why point (b) of ESRS Set 1 (number of complaints) has been removed? Disclosing the number of complaints does not seem a very burdensome requirement but it may provide users with important information which would not be covered by the other two points. (Also, point (c) still refers to complaints.)</p>	<p>SRT proposal:</p> <p>46. The undertaking shall disclose: (a) the total number of incidents of discrimination, including harassment, reported in the reporting period; (b) the total amount of material fines, penalties, and compensation for damages as a result of the incidents and complaints disclosed above; (c) the number of severe human rights incidents connected to the undertaking’s workforce in the reporting period, including an indication of how many of these are cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises. If no such incidents have occurred, the undertaking shall state this; (d) the total amount of fines, penalties and compensation for damages for the issues and incidents described in (c) above.</p>	<p>Contradicting suggestions.</p> <p>On SRT comment:</p> <ul style="list-style-type: none"> Merging (a) and (b) won’t impact taxonomy and it will make it more complex. It would then read that you only report severe cases when there’s a fine or penalty and these are two separate concepts. To be discussed. Connectivity-reconciliation is in the CSRD "Statutory auditors or audit firms already verify the financial statements and the management report. The assurance of sustainability reporting by the statutory auditors or audit firms would help to ensure the connectivity between, and consistency of, financial and 	<p>To discuss and agree with SRT about phasing-in the reconciliation of monetary amounts.</p>



Content	Comment	Proposed new draft	Secretariat preliminary view	Action
			<p>sustainability information, which is particularly important for users of sustainability information. However, there is a risk of further concentration of the audit market, which could risk the independence of auditors and increase audit fees or fees relating to the assurance of sustainability reporting".</p>	
<p><u>S1-9 – Incidents, complaints and severe human rights impacts</u> 47. The undertaking shall disclose the following information regarding identified cases of severe human rights incidents (e.g., forced labour, human trafficking or child labour): (a) the number of severe human rights incidents connected to the undertaking’s workforce in the reporting period, including an indication of how many of these are cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises. If no such incidents have occurred, the undertaking shall state this ; and (b) the total amount of fines, penalties and compensation for damages for the issues and incidents described in (a) above, and a reconciliation [TO BE DISCUSSED] of the monetary amounts disclosed in the most relevant amount in the financial statements.</p>	<p>SRT: In practice for LSME this will be limited so therefore not a big burden to include, and also will raise awareness on this issue and what it could mean. Therefore in favor of leaving in it in.</p> <p>SRB (1 comment): S1-9 par 47: we are asking too much here from an SME, this is not within their capabilities and resources</p>		<p>Contradicting suggestions.</p> <p>On SRB comment: As a compromise, we tried to keep only EU datapoints (non-SFDR that we kept was the reconciliation of monetary amounts).</p> <p>S1-9 is in SFDR Indicator #10 Table 1 Annex 1 ("Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles including the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and the International Bill of Human Rights"); except for reconciliation of monetary amounts.</p>	<p>To discuss and agree with SRT about phasing-in the reconciliation of monetary amounts.</p>





Section 6 – Business conduct (4 points)

Content	Comment	Proposed new draft	Secretariat preliminary view	Action
<p>G1-1 – Management of relationships with suppliers</p> <p>4. The undertaking shall provide information about the management of its relationships with its suppliers and its impacts on its supply chain.</p>	<p>SRT:</p> <p>G1-1 appears more relevant for large undertakings than for LSMEs given their limited scope and weight in business relationships compared to that of large undertakings. Their customer power is very limited.</p>	Delete G1-1	<p>Already discussed at TEG and agreed during the drafting session. This DR was already simplified compared with Set 1. Secretariat proposal to maybe delete part about impacts on supply chain?</p>	Discuss and agree in SRT
<p>G1-3 – Political influence and lobbying activities</p> <p>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).</p>	<p>SRT:</p> <p>Are really LSMEs in a position to exert political influence ?</p>	Add "if any"	<p>Already discussed at TEG and agreed during the drafting session. Perhaps "if any" could be added. Furthermore this requirements is included in CSRD Art. 29 b (2) provisions</p>	Discuss and agree in SRT
<p>G1-2 –Anti-corruption and anti-bribery</p> <p>9. The undertaking shall disclose:</p> <p>(a) whether it has assessed the effectiveness of actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery ;</p> <p>(b) the number of convictions and the amount of fines for violation of anti-corruption and anti-bribery laws .</p>		<p>SRT:</p> <p>Add "If the undertaking has put in place such an anti-corruption system, it shall disclose: ...</p>	<p>Already discussed at TEG and agreed during the drafting session. Perhaps "if" could be added for the actions, as reported below "(b) any actions, if any, taken to address breaches in procedures and</p>	Discuss and agree in SRT



Content	Comment	Proposed new draft	Secretariat preliminary view	Action																					
			standards of anti-corruption and anti-bribery."																						
<p>G1-2 – Anti - corruption and anti – bribery</p> <p>AR 5. The undertaking may present the required information about training on its anti-bribery and corruption policies using the following table:</p> <p>Anti-corruption and bribery training illustrative example</p> <p><i>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:</i></p> <table border="1"> <thead> <tr> <th></th> <th>Managers</th> <th>Other employees</th> </tr> </thead> <tbody> <tr> <td>Training coverage</td> <td></td> <td></td> </tr> <tr> <td><i>Total</i></td> <td>5</td> <td>50</td> </tr> <tr> <td><i>Total receiving training</i></td> <td>3</td> <td>42</td> </tr> <tr> <td>Total hours of training</td> <td>6</td> <td>84</td> </tr> <tr> <td>Frequency</td> <td></td> <td></td> </tr> <tr> <td><i>How often training is required</i></td> <td><i>Annually</i></td> <td><i>Annually</i></td> </tr> </tbody> </table>		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>	<i>Annually</i>	<i>Annually</i>	<p>SRT:</p> <p>Far too detailed for LSME.</p>	Delete.	already discussed at TEG and during the drafting session. It is an illustrative example on how an undertaking can disclose the information. The intention of this table is to provide guidance on how undertakings can disclose this information.	Discuss and agree in SRT
	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>	<i>Annually</i>	<i>Annually</i>																							

To inform the SR TEG (per LSME section)

Section 1 (3 points)

Content	Comment	Proposed new draft	Secretariat comments	Action
<p>Objective:</p> <p>2. In scope of LSME ESRS are the following undertakings, together and hereafter the “LSME” or “undertaking”:</p> <p>(a) small and medium-sized undertakings, which are public-interest entities according to point (a) of point (1) of article 2 of Directive</p>	<p>Objective:</p> <p>In 2(a), I am finding it difficult to make the link between Article 4(5) of the amended TD and the requirement for third country LSMEs to report sustainability information.</p>		<p>To be checked. Not sure that it is applicable for LSME ESRS. Reference only to art. 29 ter.</p> <p>Check with the EC</p>	to be clarified with the author



Content	Comment	Proposed new draft	Secretariat comments	Action
<p>2013/34/EU and which are not micro-undertakings as defined in Article 3(1) of that Directive. According to Art. 4(5) of the Transparency Directive (as amended by the CSRD), this also includes third country listed SMEs;</p> <p>(b) small non - complex credit institutions defined in point (145) of Article 4(1) of Regulation (EU) No 575/2013;</p> <p>(c) captive insurance undertakings defined in point (2) of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council ; and</p> <p>(d) captive reinsurance undertakings defined in point (5) of Article 13 of that same Directive.</p>				
<p><u>3.2 Material matters and materiality of information</u></p> <p>28. Performing a materiality assessment (see sections 3.4 and 3.5 of this [draft] Standard) is necessary for the undertaking to identify the material impacts and risks to be reported. When an undertakings reports on its material positive impacts and/or opportunities on a voluntary basis, the materiality assessment will as well cover them.</p>	<p>To clarify that the materiality assessment refers to the assessment of impacts and risks on a gross basis rather than on a net basis. Although it is clearly written in the indicators that shall be communicated, it is not explicitly stated in the materiality assessment.</p>	<p>Performing a materiality assessment (see sections 3.4 Impact materiality and 3.5 Financial materiality) is necessary for the undertaking to identify the material gross impacts and risks to be reported. Unless specified otherwise, the terms “impacts and risks” are used throughout ESRS to refer to the gross impacts and risks. When an undertakings reports on its material positive impacts and/or opportunities on a voluntary basis, the materiality assessment will as well cover them.</p>	<p>We would propose to include in the glossary a specification that</p> <p><i>Unless specified otherwise, the terms “impacts and risks” are used throughout ESRS to refer to the gross impacts and risks.</i></p> <p>This will deviate from Set 1 but we think it clarifies.</p>	<p>Accepted / Inform SRT</p>
<p><u>3.2 Material matters and materiality of information</u></p> <p>34. When reporting on policies and actions in relation to a sustainability matter that has been assessed to be material, if the undertaking cannot disclose the information prescribed by the Disclosure Requirements in section 3 of this [draft] ESRS (including their</p>	<p>The optional disclosure of a timeframe should be deleted for simplification in line with the proportionality principle. It should be entity-specific for LSMEs.</p>	<p>34. When reporting on policies and actions in relation to a sustainability matter that has been assessed to be material, if the undertaking cannot disclose the information prescribed by the Disclosure Requirements in section 3 of this [draft] ESRS (including their datapoints) on policies and actions, because it has not implemented the respective policies and actions, it shall disclose this to be the case.</p>	<p>It is already an optional.</p> <p>If a plan exists it is a relevant information to be disclosed</p>	<p>Not accepted / inform SRT</p>

Content	Comment	Proposed new draft	Secretariat comments	Action
datapoints) on policies and actions, because it has not implemented the respective policies and actions, it shall disclose this to be the case and it may report a timeframe in which it aims to have these in place.				

Section 2 and 3 (3 points)

Content	Comment	Proposed new draft	Secretariat preliminary view	Action
<u>(GOV-1) – The role of the administrative, management and supervisory bodies</u> 18. 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.	SR TEG: The wording "administrative, management and supervisory bodies" could be replaced with "governance bodies" for simplification for LSMEs. Not all LSMEs will have such granular governance bodies.	18. The undertaking shall disclose the composition of the governance bodies, their roles and responsibilities and access to expertise and skills with regard to sustainability matters.	Stick to approach taken in Set 1.	Not accepted / inform SR TEG
<u>(GOV-2) - Due diligence</u> 22. The undertaking shall disclose whether it has adopted a due diligence process with regard to sustainability matters.	SRT: Suggest to add here again the reference to the UN Guiding Principles and OECD-guidelines to also direct companies to these international guidelines	22. The undertaking shall disclose whether it has adopted a due diligence process with regard to sustainability matters and if it has followed the International Guidelines of the UNGP's and the OECD-guidelines.	Already discussed at TEG. Probably too complex for SME to ask this information	Not accepted / inform SRT
<u>Tables in LSME AR part with EU datapoints</u>	Comments from SRT and SRB suggesting that the reason of the tables is not clear and the		The tables include the EU datapoints stemming from the topical ESRS for which the decision was to centralise all the	Not accepted / inform SR TEG



Content	Comment	Proposed new draft	Secretariat preliminary view	Action
	relation with the other requirements		<p>contents in section 3 and to keep in the topical section only the metrics.</p> <p>For clarity it will be identified as 'EU datapoints module'.</p> <p>As some of these datapoints are also essential for the entry-level module (step1), there are some duplications that were identified as such.</p> <p>The purpose was to give the possibility to easy recognise those requirements.</p>	

Section 4 (4 points)

Content	Comment	Proposed new draft	Secretariat preliminary view	Action
<p><u>Energy intensity based on net revenue</u> 8. The undertaking shall provide information on the energy intensity (total energy consumption per net revenue) associated with activities in high climate impact sectors.</p>	<p>SR TEG: The disclosure of energy intensity based on net revenue does not provide high value for LSMEs given their limited size and proportion in the portfolios (for financial stakeholders) and given the technical limits of such KPI from an environmental perspective (for other stakeholders). These data points should be deleted.</p>		Cannot be deleted (EU datapoint). This is an SFDR datapoint indicator #6 Table 1 of Annex 1 "Energy consumption intensity per high impact climate sector"	Not accepted / inform SRT
<p><u>Energy intensity based on net revenue</u> 10. The undertaking shall specify the high climate impact sectors that are used to determine the energy intensity required by paragraph 8.</p>	<p>This paragraph should be deleted. LSMEs are usually operating in one business segment only. There is no need to split between high impact and low impact.</p>		Cannot delete, info needed for understanding par.9 SFDR datapoint	Not accepted / inform SRT



Content	Comment	Proposed new draft	Secretariat preliminary view	Action
<p><u>E1-3 – GHG removals and GHG mitigation projects financed through carbon credits</u> 23. The undertaking shall disclose any GHG removals and GHG mitigation projects it may have financed through any purchase of carbon credits.</p>	<p>SRT 1st comment: The disclosure requirement on GHG removals and GHG mitigation should be deleted, as it is very rare for LSMEs and therefore not highly relevant.</p> <p>SRT 2nd comment: The way this requirement is phrased is very confusing. What is the intent? Do you expect disclosure on removals as well as carbon credits (as in Set 1)? Or is the LSME limited to carbon credits?</p> <p>If both are to be reported, which I think should be the case, use the text from set 1.</p> <p>If only one is to be reported please clarify which.</p>		<p>1st comment: Cannot be deleted due to decision tree (value chain cap). GHG removals is value chain sensitive. Also see comments above on use of market mechanism by SMEs</p> <p>2nd comment: this paragraph is to know how much mitigation (abatement or removals) has been financed through carbon credit purchases. Only problem perhaps is that removals is also mitigation, so there is an ambiguity there. Maybe it can be rephrased to "23. The undertaking shall report any carbon credits it has used to finance GHG abatement or CO2 removals by other organizations."</p>	<p>1st comment: Not accepted / inform SRT</p> <p>2nd comment: inform SRT</p>
<p><u>E4-1 – Impact metrics related to biodiversity and ecosystems change</u> 51. If the undertaking has identified material impacts with regards to land-use change, or impacts on the extent and condition of ecosystems, it may also disclose their land-use based on a Life Cycle Assessment.</p>	<p>SRT: Paragraph 51 should be moved to AR as it is optional.</p>		<p>Optional, but part of decision tree as it is a value chain sensitive datapoint</p>	<p>Not accepted / inform SRT</p>



Section 5 (3 points)

Content	Comment	Proposed new draft	Secretariat preliminary view	Action
<p>Objective 1. The objective of this [draft] Section is to specify disclosure requirements which will enable users of the sustainability statement to understand: (a) how the undertaking affects its own workforce, workers in its value chain, affected communities and consumers and end-users; in terms of material negative actual or potential impacts; (b) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential negative impacts, and to address risks; (c) the nature, type and extent of the undertaking's material risks on its own workforce, workers in its value chain, affected communities and consumers and end-users; and how the undertaking manages them; (d) the financial effects on the undertaking over the short-, medium- and long-term time horizons of material risks arising from the undertaking's impacts and dependencies on its own workforce, workers in its value chain, affected communities and consumers and end-users.</p>	<p>SRT 1st comment: - Paragraph 1. (b) should be modified by deleting the reference to the result of such actions, as such result may be difficult to catch in the reporting period given that actions are likely to be developed in a longer period of time. Moreover, the "results of actions taken" may be judgemental. - Paragraph 1. (d) should be removed in line with proportionality principle, as LSMEs may not be able to disclose reliable information on that topic given the reporting complexity. It should be asked in a future version of the LSME ESRS. SRT 2nd comment: Main concern is that I do not understand at all how the section addresses the S2-S4 content. There are sections in the AR that refer to paras 5 to 62 (or 8 to 43) but I think these are designed for own workforce.</p>	<p>1. The objective of this [draft] Section is to specify disclosure requirements which will enable users of the sustainability statement to understand: (a) how the undertaking affects its own workforce, affected communities and consumers and end-users; in terms of material negative actual or potential impacts; (b) any actions taken to prevent, mitigate or remediate actual or potential negative impacts, and to address risks; (c) the nature, type and extent of the undertaking's material risks on its own workforce, affected communities and consumers and end-users; and how the undertaking manages them.</p>	<p>1st comment: To inform of other two suggestions that were not taken on board: (1) deleting the reference to "result of the actions" from the objective, (2) deleting the reference to "financial statements" from the objective. 2nd comment: Agree with the Objective Review: reference only to own workforce.</p>	<p>Addressed / inform SRT</p>
<p>Objective 2. These [draft] Disclosure Requirements also require the provision of an explanation by the undertaking of how such impacts, as well as the undertaking's dependencies on its own workforce, workers in the value chain, affected communities and consumers and end-users</p>	<p>SRT: Paragraph 2. is a new paragraph that should be deleted for simplification. It is covered by paragraph 1. (c). Moreover, risks other than financial effects seem too complex for LSMEs at this stage.</p>		<p>Paragraph is aligned with set 1. It applies as we have financial materiality. Agree that it is not directly applicable for S2-S4.</p>	<p>Not accepted / inform SRT</p>



Content	Comment	Proposed new draft	Secretariat preliminary view	Action
can create material risks for the undertaking (other than financial effects?).				
<u>Voluntary Disclosure S1-11 – Work-life balance metrics</u> 53. The undertaking may disclose: (a) the percentage of employees entitled to take family-related leave; and (b) the percentage of entitled employees that took family-related leave, and a breakdown by gender.	SRT: It seems without an additional descriptive requirement on b) it would be hard to judge the information. For example if none of the employees were expecting babies, or had people ill to take care off. This would not provide valuable input. Suggest to explicitly add that an explanation to a and b to be able to understand the context may be given.		This suggestion goes beyond set 1.	Not accepted / inform SRT

Section 6 (1 point):

Content	Comment	Proposed new draft	Secretariat preliminary view	Action
<u>G1-3 – Political influence and lobbying activities</u> 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.	SRT: The aggregation by country and geographical area should be deleted as it is less relevant for LSMEs that are generally geographically limited. The disclosure of how the monetary value of in-kind contributions is estimated should be deleted for simplification. SRB (1 comment): In my view DR G1-3 is of non-relevance for SMEs: they are too small to seriously influence and many of them will not be engaged at all in light of this low power of influence.	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) if applicable, the total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking; and (c) the main topics covered by its lobbying activities and the undertaking's main positions on these in brief.	It could be further simplified in regards to geographical simplification, without deleting political contributions nonetheless. Secretariat proposal: 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	Partially accepted / inform SRT



Content	Comment	Proposed new draft	Secretariat preliminary view	Action
<p>(c) the main topics covered by its lobbying activities and the undertaking's main positions on these in brief.</p>			<p>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 political contributions is estimated. (c) the main topics covered by its lobbying activities and the undertaking's main positions on these in brief.</p>	

