Exposure Draft

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARD

ESRS LSME – SECTION 1 GENERAL REQUIREMENTS

DISCLAIMER

[Draft] LSME ESRS Section 1 *General requirements* is set out in paragraphs 1 – 136. The following appendices have the same authority as the main body of the [draft] Standard:
- Appendix A: *Application Requirements*;
- Appendix B: *Qualitative characteristics of information*;
- Appendix C: *List of phased-in Disclosure Requirements*;
- Appendix D: *Structure of ESRS sustainability statements*;

The Defined terms in draft LSME ESRS will be merged for all sections in the standard. For this SR TEG meeting, the Defined terms is shared as a separate document.
[Draft] LSME ESRS Section 1 is accompanied by the following illustrative non-authoritative appendices:
- Appendix E: *Flowchart for determining disclosures to be included*;
- Appendix F: *Example of structure of ESRS sustainability statements*;
- Appendix G: *Example of incorporation by reference*.
-Appendix H: List of Disclosure/Application Requirements in Section 2

CONTENT AND STATUS OF THIS DRAFT - PREFINAL DRAFT BEFORE APPROVAL

This draft has to be read in conjunction with the Agenda Papers on LSME discussed in SR TEG and SRB meetings held from January to September 2023. It reflects the outcome of the internal consultation (TEG and SRB) that took place in July.

This draft has been developed as a markup from version 3.1 LSME as sent as working papers to SR TEG and SR Board during the internal consultation period. The changes are made based on the feedback and comments received by the respective members and the public discussions at SR TEG (12 and 18 September) and SRB (13 September).

To reflect the principle of proportionality, the following key simplifications have been implemented in this document compared to the ESRS Set 1:

- The text of SET 1 standards has been integrally considered and amended where appropriate, so that LSME will be a standalone document.
- This draft standard has been adjusted to reflect the "individual reporting" in LSME.
- EFRAG will consult on the applicability of each Sector specific ESRS to LSMEs, as part of the consultation on that ESRS. A question on the general approach to sector standards in LSME will also be included in LSME Exposure Draft. Pending the definition of such an approach, in this draft there are no references to sector-specific ESRS.
- The reporting covers material impacts and risks (as per the CSRD). Opportunities are voluntary.
- The undertaking shall disclose negative impacts. Positive impacts are voluntary.
- Targets (not explicitly required in the CSRD but assessed as technically necessary for quality disclosure – when they are used in practice). The requirement is to disclose whether the undertaking has targets, and if it has targets, the requirement is to specify whether they are science-based and how they are calculated and implemented.
- Due diligence (not explicitly required in the CSRD but assessed as technically necessary for quality disclosure – when DD processes exist in practice): the undertaking is required to disclose whether and to what extent it has implemented sustainability due diligence processes as defined in the relevant OECD, UNGP and ILO instruments.
- Simplifications have been introduced in chapter 6.1, 6.4 and 6.5.
- Chapter 6.7 Information on intellectual property, know-how or results of innovation has been simplified.
- Chapter 4.1 Reporting undertaking and value chain: same as in Set 1 but deleted the reference to accounted equity methods.

- Reasonable effort when reporting on comparative and restatement of errors.

Added Chapter 6.7 “Matters in course of negotiation”. Beside Intellectual property we have included the possibility for LSME to omit, in exceptional cases, information relating to impending developments or matters in the course of negotiation. This exemption is not included in CSRD for LSME (Art. 19a(6) derogates from Art. 19a(2) to (4)), but we added it considering that the rationale of the derogation is to simplify and make sustainability reporting more proportionate for listed SMEs. Granting that exemption only to large undertakings would be inconsistent with this rationale.

The approach to entity-specific disclosure is unchanged from Set 1 (‘shall’), as considered an integral component of a reporting that meets the quality of information (Appendix B). A specific question will be included in the consultation on this aspect.

The approach to materiality and value chain is unchanged from Set 1 (except the clarification that IROs of subsidiaries are treated as IROs from investments – part of business relationships).

The list of phase-ins is described in *Appendix C: List of phased-in Disclosure Requirements* of this section and are adjusted to reflect the size of the LSMEs.

All cross-references in different paragraphs and sections may be subject to numbering adjustments

The acronyms and defined terms in LSME will be merged together with all sections, as a mandatory appendix.

Table of contents

Objective

1. The objective of this European Sustainability Reporting Standard for listed SMEs (LSME ESRS) is to specify the sustainability information that the undertakings identified in the next paragraph shall disclose in their individual sustainability statement in accordance with Directive 2013/34/EU of the European Parliament and of the Council[1], as amended by Directive (EU) 2022/2464[2] (the "CSRD"), when they elect to present be report in accordance with the sustainability reporting standards for small and medium-sized undertakings. Reporting in accordance with LSME ESRS does not exempt undertakings from other obligations laid down in substantive Union law. In particular, this [draft] Standard sets out *General Requirements* (Section 1), *General Disclosures* (Section 2), *Policies, actions and targets* (Section 3) and *Topical Disclosures* (Sections 4, 5 and 6) that specify the sustainability information to be disclosed in accordance with Directive 2013/34/EU as amended by Directive EU 2022/2464 Corporate Sustainability Reporting Directive when using the derogation in art. 19a (6) and 29c.

Scope

2. The following undertakings are in scope of LSME ESRS , (together and hereafter the "LSME" or "undertaking"):
   (a) small and medium-sized undertakings, which are public-interest entities according to point (a) of point (1) of article 2 of Directive 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;
   (b) small non - complex credit institutions defined in point (145) of Article 4(1) of Regulation (EU) No 575/2013;
   (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
   (d) captive reinsurance undertakings defined in point (5) of Article 13 of that same Directive.

3. An LSME is allowed to use the derogation in art. 19a (6) and 29c of the CSRD and prepare its individual sustainability statement using this [draft] Standard when it is not a parent of a large group. A large group is a group that, on a consolidated basis, exceeds the limits of at least two of the three following criteria (as defined in art. 3 (7) of Directive 2013/34/EU):
   (a) balance sheet total - EUR 20,000,000.
   (b) net turnover - EUR 40,000,000;
   (c) average number of employees during the financial year – 250.

4. An LSME, which is a parent undertaking of a large group, is required to present consolidated sustainability reporting to be included in its management report, prepared according to the ESRS for large undertakings (art. 29a and 29b of Directive 2013/34/EU as emended by the CSRD, Commission Delegated Regulation xxxx).

[1] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).
[2] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (OJ L 322, 16.12.2022, p. 15).

5. Specifically, LSME ESRS specify the information that an undertaking shall disclose about its ***material impacts*** and ***risks*** in relation to environmental, social, and governance ***sustainability matters***. LSME ESRS does not require undertakings to disclose any information on environmental, social and governance topics covered by this standard, when the undertaking has assessed as non-material (See Appendix E flowchart for determining disclosures under ESRS).The information disclosed in accordance with this standard enables ***users*** of the ***sustainability statement*** to understand the undertaking's material impacts on people and environment and the material effects of sustainability matters on the undertaking's development, performance and position.

Section 1: LSME General Requirements

6. This section sets out the general requirements that undertakings shall comply with when preparing and presenting individual sustainability statement under article 19a (6) and article 29c of the CSRD. This [draft] Standard establishes sustainability reporting requirements for small and medium sized undertakings that are proportionate and relevant to their capacities and characteristics and to the scale and complexity of their activities.

1. Categories of disclosures, reporting areas and drafting conventions

1.1 Complying with [draft] LSME ESRS

7. The undertaking shall disclose, in accordance with this [draft] Standard, all the material information regarding negative impacts and risks in relation to environmental, social, and governance matters. The information shall enable the understanding of the undertaking's negative impacts on those matters and how they affect the undertaking's development, performance and position.

8. The undertaking may disclose:

   (a) the material information regarding positive impacts in relation to environmental, social, and governance matters;

   (b) sustainability-related financial opportunities that generate or are likely to generate material financial effects in the short-, medium- or long- term.

9. The undertaking shall present its individual sustainability statement containing material sustainability-related information as part of its management report (see chapter 8 *Structure of sustainability statements*).

1.2 LSME ESRS structure and reporting areas

10. This [Draft] ESRS is composed of the following sections:

    Section 1 *General requirements*;

    Section 2 *General disclosures*;

    Section 3 *Policies, actions and targets*

    Section 4 *Environmental disclosures*;

    Section 5 *Social disclosures*;

    Section 6 *Business conduct disclosures*.

11. Section 1, Section 2 and Section 3 are cross-cutting sections of this [draft] standard, while Section 4, Section 5 and Section 6 are topical sections of this [draft] standard (Environmental, Social and Governance disclosures). Cross-cutting sections and topical sections are sector-agnostic, meaning that they apply to all undertakings regardless of which sector or sectors the undertaking operates in. The cross-cutting Section 1 (General requirements) Section 2 (General disclosures) and Section 3 (Policies, Actions and Targets) apply to the ***sustainability matters*** covered by topical sections. Section 2 of this [draft] ESRS establishes information to be mandatorily provided by the undertaking at a general level, across all sustainability topics.

12. Topical sections of this [draft] ESRS cover a sustainability topic and are structured into topics and sub-topics, and where necessary sub-sub-topics. Disclosure requirements are organised in accordance with this topical approach. The table in Appendix A *Application Requirements* of this [draft] Standard, paragraph AR 15, presents the list of sustainability topics, sub-topics and sub-sub-topics (collectively '***sustainability matters'***) covered in [draft] topical sections.

13. The Disclosure Requirements in this [draft] ESRS cover the following reporting areas:

(a) **Governance** (GOV): the governance processes, controls and procedures used to monitor and manage ***impacts*** and ***risks*** (see Section 2 of this [draft] ESRS, chapter 2 *Governance*);

(b) **Strategy** (SBM): how the undertaking's strategy and business model interact with its material impacts and risks, including how the undertaking addresses those impacts and risks (see Section 2 of this [draft] ESRS, chapter 3 *Strategy*);

(c) **Impact and risk management** (IR): the process(es) by which the undertaking: i. identifies impacts and risks and assesses their ***materiality*** (see Section 2 Disclosure Requirement 9 *(IR-1)*); ii. manages material ***sustainability matters*** through ***policies*** and ***actions*** (see Section 3 Disclosure Requirement 11 *(IR-3)*)**,** iii. disclose information about ***targets*** if it has set them (see Section 3 Disclosure Requirement 12 *(IR-4)*), iv. engage with own workers, workers in the value chain, affected communities, consumers and end-users, and their representatives about impacts, to the extent that it has stakeholder engagement in place (see Section 3 Disclosure Requirement 13 *(IR-5)*), v. remediate negative impacts and implements channels for own workers, workers in the value chain, affected communities, consumers and end-users to raise concerns, to the extent that it has remediaction activities and channels in place (see Section 3 Disclosure Requirement 14 *(IR-6)*); and

(d) **Metrics** (M): how the undertaking measures its performance (see topical section 4, 5 and 6 of this [draft] ESRS).

14. In addition to the disclosure requirements laid down in the sections described in paragraph 10 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 of this section provide further guidance regarding entity-specific disclosures.

1.3 Drafting conventions

15. In this ESRS:

(a) the term "***impacts***" refers to sustainability-related impacts (positive impacts are disclosed on a voluntary basis) that are connected with the undertaking's business, as identified through an ***impact materiality*** assessment process (see section 3.4 Impact materiality). It refers both to actual impacts and to potential future impacts. In this [draft] ESRS the term "impacts" refers only to negative impacts, unless differently specified.

(b) the term "***risks***" refers to the undertaking's sustainability-related financial risks, including those deriving from dependencies on natural, human and social resources, as identified through a ***financial materiality*** assessment process (see section 3.5).

Collectively, these are referred to as "impacts and risks" (IRs). They reflect the ***double materiality*** perspective of ESRS described in section 3 (disclosure on material opportunities is on voluntary basis only, see Section 2 of this [draft] ESRS 41 to 43).

16. Throughout ESRS, terms that are defined in the glossary of definitions (Annex II) are put in ***bold italic***, except when a defined term is used more than once in the same paragraph.

17. ESRS structure the information to be disclosed under Disclosure Requirements. Each Disclosure Requirement consists of one or more distinct datapoints. The term "datapoint" can also refer to a narrative sub-element of a Disclosure Requirement.

18. In addition to Disclosure Requirements most Sections also contain Application Requirements. Application Requirements support the application of Disclosure Requirements and have the same authority as other parts of this [draft] ESRS.

19. This [draft] ESRS uses the following terms to distinguish between different degrees of obligation on the undertaking to disclose information:

(a) "shall disclose" – indicates that the provision is prescribed by a Disclosure Requirement or datapoint;

(b) "may disclose" – indicates voluntary disclosure to encourage good practice.

In addition, this [draft] ESRS uses the term "shall consider" when referring to issues, resources or methodologies that the undertaking is expected to take into account or to use in the preparation of a given disclosure if applicable.

2. Qualitative characteristics of information

20. When preparing its ***sustainability statement***, the undertaking shall apply:

(a) the fundamental qualitative characteristics of information, i.e., relevance and faithful representation; and

(b) the enhancing qualitative characteristics of information, i.e., comparability, verifiability and understandability.

21. These qualitative characteristics of information are defined and described in Appendix B of this Section of this [draft] ESRS.

3. Double materiality as the basis for sustainability disclosures

22. The undertaking shall report on ***sustainability matters*** based on the ***double materiality*** principle as defined and explained in this chapter.

3.1 Stakeholders and their relevance to the materiality assessment process

23. ***Stakeholders*** are those who can affect or be affected by the undertaking. There are two main groups of stakeholders:

(a) affected stakeholders: individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking's activities and its direct and indirect ***business relationships*** across its value chain; and

(b) users of ***sustainability statements***: primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors, including asset managers, credit institutions, insurance undertakings), as well as other users, including the undertaking's business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics.

24. Some, but not all, ***stakeholders*** may belong to both groups defined in paragraph 24.

25. To the extent that an undertaking engages with affected ***stakeholders***, engagement with them supports the undertaking's sustainability ***materiality*** assessment. This includes its processes to identify and assess actual and potential negative impacts, which then inform the assessment process to identify the material impacts for the purposes of sustainability reporting (see chapter 3.4 of this Section).

3.2 Material matters and materiality of information

26. Performing a ***materiality*** assessment (see chapters 3.4 and 3.5 of this Section) is necessary for the undertaking to identify the material ***impacts*** and ***risks*** to be reported. If an undertaking reports on its material positive impacts and/or opportunities on a voluntary basis, these are also covered by the materiality assessment.

27. ***Materiality*** assessment is the starting point for sustainability reporting under this [draft] ESRS. Disclosure Requirement 9 *(IR-1)* in Section 2 of this [draft] ESRS includes general disclosure requirements about the undertaking's process to identify ***impacts*** and ***risks*** and assess their materiality. Disclosure Requirement 7 *(SMB-3)* of Section 2 provides general disclosures requirements on the material impacts and risks resulting from the undertaking's materiality assessment.

28. The Application Requirements in Appendix A of this Section, paragraph ARXX, include the list of ***sustainability*** matters covered in topical sections of this [draft] ESRS, categorised by topics, sub-topics and sub-sub-topics, to support the ***materiality*** assessment. Appendix E *Flowchart for determining disclosures to be included* of this [draft] Standard provides an illustrative example of the materiality assessment process described in this section.

29. A sustainability matter is "material" when it meets the criteria defined for ***impact materiality*** (see section 3.4 of this Section) or ***financial materiality*** (see section 3.5 of this Section) or both.

30. Irrespective of the outcome of the materiality assessment, as stated also in paragraph 13 of this section, the undertaking shall always disclose the information required by Section 2 of this [draft] ESRS (i.e., all Disclosure Requirements and data points).

31. When the undertaking concludes that a sustainability matter is material as a result of its ***materiality*** assessment, it shall:

(a) disclose information according to the Disclosure Requirements (including Application Requirements) related to that specific sustainability matter in the relevant sections of this [draft] ESRS; and

(b) disclose additional appropriate entity-specific disclosures (see paragraph 15 and AR 1 to AR 4 of this Section) when the material sustainability matter is not covered by this [draft] ESRS or is covered with insufficient granularity.

32. The applicable information prescribed within a Disclosure Requirement, including its datapoints, or an entity-specific disclosure, shall be disclosed when the undertaking

assesses, as part of its assessment of material information, that the information is relevant from one or more of the following perspectives:

(a) the significance of the information in relation to the matter it purports to depict or explain; or

(b) the capacity of such information to meet the users' decision-making needs, including the needs of primary users of general-purpose financial reporting described in paragraph 50 and/or the needs of users whose principal interest is in information about the undertaking's impacts.

33. If the undertaking concludes that climate change is not material and therefore omits all disclosure requirements related to E1 Climate change, it shall disclose a detailed explanation of the conclusions of its **materiality** assessment with regard to climate change (see Section 2 Disclosure Requirement 10 *(IR-2) Disclosure Requirements in ESRS covered by the undertaking's sustainability statement*), including a forward-looking analysis of the conditions that could lead the undertaking to conclude that climate change is material in the future.

34. If the undertaking concludes that a topic other than climate change is not material and therefore it omits all the Disclosure Requirements in Section 3 or/and in the corresponding topical Sections of this [draft] ESRS, it may briefly explain the conclusions of its materiality assessment for that topic.

35. When reporting on ***policies***, ***actions*** and ***targets in relation to a sustainability matter*** that has been assessed to be material, the undertaking shall apply the requirements in Section 3 of this [draft] ESRS (see Disclosure Requirement 11 *(IR-3) – Policies and actions in relation to sustainability matters,* Disclosure Requirement 12 *(IR-4) – Targets in relation to sustainability matters*).

36. When disclosing information on ***metrics*** for a material ***sustainability matter***, the undertaking shall apply the requirements in Sections 4, 5 and 6 of this [draft] ESRS and it:

(a) shall include the information prescribed by a Disclosure Requirement if it assesses such information to be material; and

(b) may omit the information prescribed by a datapoint of a Disclosure Requirement if it assesses such information to be not material and concludes that such information is not needed to meet the objective of the Disclosure Requirement.

37. If the undertaking omits the information prescribed by a datapoint that derives from other EU legislation listed in Appendix B of Section 2 of this [draft] ESRS, it shall explicitly state that the information in question is "not material".

38. The undertaking shall establish how it applies qualitative or quantitative criteria, including appropriate thresholds, to determine:

(a) the information it discloses on ***metrics*** for a material sustainability matter; and

(b) the information to be disclosed as entity-specific disclosures.

3.3. Double materiality

39. ***Double materiality*** has two dimensions, namely: ***impact materiality*** and ***financial materiality***. Unless specified otherwise, the terms "material" and "materiality" are used throughout this [draft] ESRS to refer to double materiality.

40. ***Impact materiality*** and ***financial materiality*** assessments are inter-related and the interdependencies between these two dimensions shall be considered. In general, the

starting point is the assessment of impacts, although there may also be material ***risks*** (and opportunities) that are not related to the undertaking's ***impacts***. A sustainability impact may be financially material from inception or become financially material, when it could reasonably be expected to affect the undertaking's financial position, financial performance, cash flows, its access to finance or cost of capital over the short-, medium- or long-term. Impacts are captured by the impact materiality perspective irrespective of whether or not they are financially material.

41. In identifying and assessing the ***impacts*** and ***risks*** in the undertaking's ***value chain*** to determine their ***materiality***, the undertaking shall focus on areas where they are deemed likely to arise, based on the nature of the activities, business relationships, geographies or other risk factors concerned.

42. The undertaking shall consider how it is affected by its ***dependencies*** (if any) on the availability of natural and social resources at appropriate prices and quality, independently of its potential ***impacts*** on those resources.

43. An undertaking's principal ***impacts*** and ***risks*** are understood to be the same as the material impacts and risks identified under the ***double materiality*** principle and therefore reported in its ***sustainability statement***.

44. The undertaking shall apply the criteria set under chapters 3.4 and 3.5 in this section of this [draft] ESRS, using appropriate quantitative and/or qualitative thresholds. Appropriate thresholds are necessary to determine which ***impacts*** and ***risks*** are identified and addressed by the undertaking as material and to determine which ***sustainability matters*** are material for reporting purposes. Some existing standards and frameworks use the term "most significant impacts" when referring to the threshold used to identify the impacts that are described in this [draft] ESRS as "material impacts."

3.4 Impact materiality

45. A ***sustainability matter*** is material from an impact perspective when it pertains to the undertaking's material actual or potential, ***impacts*** on people or the environment over the short-, medium- or long-term time. Impacts include those connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. ***Business relationships*** include those in the undertaking's upstream and downstream ***value chain*** and are not limited to direct contractual relationships.

46. In this context, impacts on people or the environment include impacts in relation to environmental, social and governance matters.

47. To the extent that the undertaking adopts contents of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises in its impact management processes, its impact ***materiality*** assessment is informed by the due diligence[3] process. Due diligence is the process by which undertakings identify, prevent, mitigate and account for how they address the actual and potential impacts on the environment and people connected with their business.

48. For actual negative impacts, materiality is based on the severity of the impact, while for potential negative impacts it is based on the severity and likelihood of the impact. Severity is based on:

    (a) the scale;

[3] This process is described in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

(b) scope; and

(c) irremediable character of the impact.

In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

3.5 Financial materiality

49. The scope of ***financial materiality*** for sustainability reporting is an expansion of the scope of materiality used in the process of determining which information should be included in the undertaking's financial statements.

50. The ***financial materiality*** assessment corresponds to the identification of information that is considered material for primary users of general-purpose financial reporting in making decisions relating to providing resources to the entity. In particular, information is considered material for primary users of general-purpose financial reporting if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's ***sustainability statement***.

51. A sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material ***financial effects*** on the undertaking. This is the case when a sustainability matter generates or may generate ***risks*** that have a material influence, or could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term. Risks may derive from past events or future events and may derive from dependencies on natural, human and social resources.

The ***financial materiality*** of a sustainability matter is not constrained to matters that are within the control of the undertaking but includes information on material ***risks*** attributable to ***business relationships*** with other undertakings, including its subsidiaries, or ***stakeholders*** beyond the scope of financial control.

52. ***Dependencies*** on natural and social resources can be sources of financial ***risks***. Dependencies may trigger effects in two possible ways:

(a) they may influence the undertaking's ability to continue to use or obtain the resources needed in its business processes, as well as the quality and pricing of those resources; and

(b) they may affect the undertaking's ability to rely on relationships needed in its business processes on acceptable terms.

53. The ***materiality*** of ***risks*** is assessed based on a combination of the likelihood of occurrence and the potential magnitude of the ***financial effects***.

3.6 Material impacts or risks arising from actions to address sustainability matters

54. The undertaking's ***materiality*** assessment process may lead to the identification of situations in which its ***actions*** to address certain ***impacts*** or ***risks*** in relation to a sustainability matter, might have material negative impacts or cause material risks in relation to one or several other ***sustainability matters***. For example:

(a) an action plan to decarbonise production that involves abandoning certain products might have material negative impacts on the undertaking's ***own workforce*** and result in material risks due to redundancy payments; or

(b) an action plan of an automotive ***supplier*** to focus on the supply of e-vehicles might lead to stranded assets for the production of supply parts for conventional vehicles.

55. In such situations, the undertaking shall:

(a) mention the existence of material negative impacts or material risks together with the ***actions*** that generate them, with a cross-reference to the topic to which the impacts or risks relate; and

(b) provide a description of how the material negative impacts or material risks are addressed under the topic to which they relate.

3.7 Level of disaggregation

56. 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 materialize, such as in specific countries and/or specific sites.

4. Value chain

4.1 Reporting undertaking and value chain

57. The information about the reporting undertaking provided in the ***sustainability statement*** shall be extended to include information on the material ***impacts*** and ***risks*** connected to the undertaking through its ***business relationships*** in the upstream and/or downstream ***value chain*** ("value chain information"). Investment and other business relationships with subsidiaries of the undertaking are as well sources of material impacts and risks, based on the results of materiality assessment. In extending the information about the reporting undertaking, the undertaking shall include material impacts and risks connected with its upstream and downstream value chain(s):

(a) following the outcome of its ***materiality*** assessment and, if applicable, of its due diligence process ; and

(b) in accordance with any specific requirements related to the value chain of topical sections of this [draft] ESRS.

58. The extension of the information about the reporting undertaking to include value chain information does not require information on each and every ***actor in the value chain***, but only the inclusion of material ***value chain*** information.

59. The undertaking shall include material value chain information when this is necessary to:

(a) allow users of ***sustainability statements*** to understand the undertaking's material ***impacts*** and ***risks***; and/or

(b) produce a set of information that meets the qualitative characteristics of information (see Appendix B of this [draft] Section).

60. When determining at which level within its own operations and its upstream and downstream value chain a material sustainability matter arises, the undertaking shall use its assessment of ***impacts*** and ***risks*** following the ***double materiality*** principle (see chapter 3 of this [draft] Standard).

61. When associates or joint ventures are part of the undertaking's value chain, for example as suppliers, the undertaking shall include information related to those undertakings, following paragraph 57, 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 connected with the undertaking's products and services through its business relationships.

4.2 Estimation using sector averages and proxies

62. The undertaking's ability to obtain the necessary upstream and downstream ***value chain*** information may vary depending on various factors, such as the undertaking's contractual arrangements, the level of control that it exercises on the operations outside the consolidation scope and its buying power. When the undertaking does not have the ability to control the activities of its upstream and/or downstream value chain and its business relationships, obtaining value chain information may be more challenging.

63. There are circumstances where the undertaking cannot collect the information about its upstream and downstream ***value chain*** as required by paragraph 57 after making reasonable efforts to do so. In these circumstances, the undertaking shall estimate the information to be reported about its upstream and downstream value chain, by using all reasonable and supportable information, such as sector-average data and other proxies.

64. Obtaining ***value chain*** information could be particularly challenging for an LSME in the case of its upstream and/or downstream value chain entities that are not in the scope of the CSRD, as LSME may have less control over their value chain and fewer resources to collect data.

65. With reference to ***policies*** and ***actions***, the undertaking's reporting shall include upstream and/or downstream ***value chain*** information to the extent that those policies and actions involve ***actors in the value chain***.

66. [**NOTE TO SR TEG/SRB.** THE FOLLOWING WILL BE INCLUDED IN THE BASIS FOR CONCLUSIONS]: With reference to ***metrics***, the undertaking's reporting shall include value chain information only for the following disclosures in Section 4 of [draft] LSME ESRS, in addition to entity-specific disclosures that may be necessary reflecting the undertaking's facts and circumstances:
    (a) Scope 3 GHG emissions (E1-2);
    (b) GHG removals (E1-3);
    (c) Substances of concern and substances of very high concern (E2-2);
    (d) Impact metrics related to biodiversity and ecosystems change (E4-1); and
    (e) Resource inflows (E5-1) and Resource outflows (E5-2) (only for qualitative information).]

67. When the undertaking includes value chain information in its metrics, in many cases, in particular for environmental matters for which proxies are available, the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its upstream and downstream value chain, for example, when calculating the undertaking's GHG Scope 3 emissions.

68. The incorporation of estimates made using sector-average data or other proxies shall not result in information that does not meet the qualitative characteristics of information (see chapter 2 and section 6.2 *Sources of estimation and outcome uncertainty* of this Section).

5. Time horizons

5.1 Reporting period

69. The reporting period for the undertaking's ***sustainability statement*** shall be consistent with that of its financial statements.

5.2 Linking past, present and future

70. The undertaking shall establish appropriate linkages in its ***sustainability statement*** between retrospective and forward-looking information, when relevant, to foster a clear understanding of how historical information relates to future-oriented information.

5.3 Reporting progress against the base year

71. A base year is the historical reference date or period for which information is available and against which subsequent information can be compared over time.

72. The undertaking shall present comparative information in respect of the base year for amounts reported in the current period when reporting the developments and progress towards a target, when they are used, unless the relevant Disclosure Requirement already defines how to report progress. The undertaking may also include historical information about achieved milestones between the base year and the reporting period when this is relevant information.

5.4 Definition of short-, medium- and long-term for reporting purposes

73. When preparing its individual ***sustainability statement***, the undertaking shall adopt the following time intervals as of the end of the reporting period:

    (a) for the short-term time horizon: the period adopted by the undertaking as the reporting period in its financial statements;

    (b) for the medium-term time horizon: from the end of the short-term reporting period defined in (a) up to five years; and

    (c) for the long-term time horizon: more than five years.

74. The undertaking shall use an additional breakdown for the long-term time horizon when ***impacts*** or ***actions*** are expected in a period longer than 5 years if necessary to provide relevant information to users of ***sustainability statements***.

75. If different definitions of medium- or long-term time horizons are required for specific items of disclosure in a topical section of this [draft] ESRS, the definitions in the topical section shall prevail.

76. There may be circumstances where the use of the medium- or long-term time horizons in paragraph 72 results in non-relevant information, as the undertaking uses a different definition for (i) its processes of identification and management of material ***impacts*** and ***risks*** or (ii) the definition of its ***actions***. These circumstances may be due to industry-specific characteristics, such as cash flow and business cycles, the expected duration of capital investments, the time horizons over which the users of ***sustainability statements*** conduct their assessments and the planning horizons typically used in the undertaking's industry for decision-making. In these circumstances, the undertaking may adopt a different definition of medium- and/or long-term time horizons (see [draft] Section 2 Disclosure Requirement 2 *(BP-2)* paragraph 9).

77. References to "short-term", "medium-term", and "long-term" in this [draft] Standard refer to the time horizon as determined by the undertaking according to the provisions in paragraphs xx to xx.

6. Preparation and presentation of sustainability information

78. This chapter provides general requirements to be applied when preparing and presenting sustainability information.

6.1 Presenting comparative information

79. The undertaking shall disclose comparative information in respect of the previous period for all quantitative ***metrics*** and monetary amounts disclosed in the current period. When relevant to an understanding of the current period's ***sustainability statement***, the undertaking shall also disclose comparative information for narrative sustainability disclosures.

80. When the undertaking reports comparative information that differs from the information reported in the previous period it shall disclose, with reasonable effort:

    (a) the difference between the figure reported in the previous period and the revised comparative figure; and

    (b) the reasons for the revision of the figure.

81. Sometimes, it is not possible with reasonable effort to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data might not have been collected in the prior period(s) in a way that allows either retrospective application of a new definition of a metric or target, or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information (see Section 2 of this [draft] ESRS BP-2). When it is not possible with reasonable effort to adjust comparative information for one or more prior periods, the undertaking shall disclose this fact.

82. When a topical section of this [draft] ESRS requires the undertaking to present more than one comparative period for a metric or datapoint, the requirements of that section shall prevail.

6.2 Sources of estimation and outcome uncertainty

83. When quantitative ***metrics*** and monetary amounts, including upstream and downstream ***value chain*** information (see chapter 4 of this Section), cannot be measured directly and can only be estimated, measurement uncertainty may arise.

84. An undertaking shall disclose information to enable users to understand the most significant uncertainties affecting the quantitative metrics and monetary amounts reported in its sustainability statement.

85. The use of reasonable assumptions and estimates, including ***scenario analysis***, is an essential part of preparing sustainability-related information and does not undermine the usefulness of that information, provided that the assumptions and estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an assumption or estimate from providing useful information or meeting the qualitative characteristics of information (see Appendix B of this [draft] Standard).

86. Data and assumptions used in preparing the ***sustainability statement*** shall be consistent to the extent possible with the corresponding financial data and assumptions used in the undertaking's financial statements.

87. Some topical section of this [draft] ESRS requires the disclosure of information such as explanations about possible future events that have uncertain outcomes. In judging whether information about such possible future events is material, the undertaking shall refer to the criteria in Chapter 3 of this Section and consider:

    (a) the potential ***financial effects*** of the events (the possible outcome);

(b) the severity and likelihood of the impacts on people or the environment resulting from the possible events, taking account of the factors of severity specified in paragraph 48; and

(c) the full range of possible outcomes and the likelihood of the possible outcomes within that range.

88. When assessing the possible outcomes, the undertaking shall consider all relevant facts and circumstances, including information about low-probability and high-impact outcomes, which, when aggregated, could become material. For example, the undertaking might be exposed to several impacts or risks, each of which could cause the same type of disruption, such as disruptions to the undertaking's ***supply chain***. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk of ***supply chain*** disruption from all sources might be material (see Section 2 Disclosure Requirement 2 (*BP-2*)).

6.3 Updating disclosures about events after the end of the reporting period

89. In some cases, the undertaking may receive information after the reporting period but before the management report is approved for issuance. If such information provides evidence or insights about conditions existing at period end, the undertaking shall, where appropriate, update estimates and sustainability disclosures, in the light of the new information.

90. When such information provides evidence or insights about material transactions, other events and conditions that arise after the end of the reporting period, the undertaking shall, where appropriate, provide narrative information indicating the existence, nature and potential consequences of these post-year end events.

6.4 Changes in preparation or presentation of sustainability information

91. The definition and calculation of ***metrics***, including metrics used to set ***targets*** and monitor progress towards them (only in case targets have been specifically set by the undertaking), shall be consistent over time. The undertaking shall provide restated comparative figures, unless it is not possible with reasonable effort to do so (see Section 2 Disclosure Requirement 2 (*BP-2*)), when it has:

(f) redefined or replaced a metric or target;

(g) identified new information in relation to the estimated figures disclosed in the preceding period and the new information provides evidence of circumstances that existed in that period.

6.5 Reporting errors in prior periods

92. The undertaking shall correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed, unless it is not possible with reasonable effort to do so. This requirement does not extend to reporting periods before the first year of application of ESRS by the undertaking.

93. Prior period errors are omissions from, and misstatements in, the undertaking's ***sustainability statement*** for one or more prior periods. Such errors arise from a failure to use, or misuse of, reliable information that:

(a) was available when the management report that includes the sustainability statements for those periods was authorised for issuance; and

(b) could reasonably be expected to have been obtained and considered in the preparation of sustainability disclosures included in these reports.

94. Such errors include: the effects of mathematical mistakes, mistakes in applying the definitions for ***metrics***, oversights or misinterpretations of facts, and fraud.

95. Potential errors in the current period discovered in that period are corrected before the management report is authorised for issuance. However, material errors are sometimes only discovered in a subsequent period.

96. When it is not possible with reasonable effort to determine the effect of an error on all prior periods presented, the undertaking shall restate the comparative information to correct the error from the earliest date practicable. When correcting disclosures for a prior period, the undertaking shall not use hindsight either in making assumptions about what the management's intentions would have been in a prior period or in estimating the amounts disclosed in a prior period. This requirement applies to correction of both backward-looking and forward-looking disclosures.

97. Corrections of errors are distinguished from changes in estimates. Estimates are to be revised as soon as additional information becomes available (see Section 2 Disclosure Requirement 2 (*BP-2*)).

6.6 Classified and sensitive information, and information on intellectual property, know-how or results of innovation

98. The undertaking is not required to disclose ***classified information*** or ***sensitive information***, even if such information is considered material.

99. When disclosing information about its ***strategy***, ***plans*** and ***actions***, where a specific piece of information corresponding to intellectual property, know-how or the results of innovation is relevant to meet the objective of a Disclosure Requirement, the undertaking may nevertheless omit that specific piece of information if it:

(a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;

(b) has commercial value because it is secret; and

(c) has been subject to reasonable steps by the undertaking to keep it secret.

100. If the undertaking omits ***classified information*** or ***sensitive information***, or a specific piece of information corresponding to intellectual property, know-how or the results of innovation because it meets the criteria established in the previous paragraph, it shall comply with the disclosure requirement in question by disclosing all other required information.

101. The undertaking shall make reasonable effort to ensure that beyond the omission of the specific ***classified information*** or ***sensitive information***, or of the specific piece of information corresponding to intellectual property, know-how or the results of innovation, the overall relevance of the disclosure in question is not impaired.

6.7 Matters in course of negotiation

102. The undertaking is not required to disclose information relating to impending developments or matters in the course of negotiation, even if such information is considered material.

103. This exemption could apply, in exceptional cases, where in the duly justified opinion of the members of the administrative, management and supervisory bodies, acting within the

competences assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking, provided that such omission does not prevent a fair and balanced understanding of the undertaking's development, performance, and position, and the impact of its activity.

7. Structure of sustainability statement

104. This chapter provides the basis for the presentation of the information about ***sustainability matters*** prepared in compliance with the CSRD and this [draft] ESRS (i.e., ***sustainability statement***) within the undertaking's management report. Such information is presented in a dedicated section of the management report identified as the sustainability statement. Appendix F *Example of structure of ESRS sustainability statements* of this Section provides an illustrative example of sustainability report structured according to the requirements of this chapter.

7.1 General presentation requirement

105. Sustainability information shall be presented:

(a) in a way that allows a distinction between information required by disclosures in this [draft] ESRS and other information included in the management report; and

(b) under a structure that facilitates access to and understanding of the ***sustainability statement***, both in human and machine-readable formats.

7.2 Content and structure of the sustainability statement

106. Except for the possibility to incorporate information by reference in section 8.1 *Incorporation by reference* of this section, the undertaking shall report all the applicable disclosures (sector-agnostic and entity-specific) required by this [draft] ESRS as per chapter 1 of this Section, within a single section of the management report.

107. The undertaking shall report, in its ***sustainability statement***, the disclosures pursuant to Article 8 of Regulation (EU) 2020/852 of the European Parliament and the Council[4] and Commission Delegated Regulations that specify the content of those disclosures. The undertaking shall ensure that these disclosures are separately identifiable within the sustainability statement. The disclosures relating to each of the environmental objectives defined in the Taxonomy Regulation shall be presented together in a clearly identifiable part of the environmental section of the sustainability statement. These disclosures are not subject to the provisions of ESRS, with the exception of this paragraph and the first sentence of paragraph 105 of this Standard.

108. When the undertaking includes in its individual ***sustainability statement*** additional disclosures stemming from (i) other legislation which requires the undertaking to disclose sustainability information, or (ii) generally accepted sustainability reporting standards and frameworks, including non-mandatory guidance and sector-specific guidance, published by other standard-setting bodies (such as technical material issued by the International Sustainability Standards Board or the Global Reporting Initiative), such disclosures shall:

(a) be clearly identified with an appropriate reference to the related legislation, standard or framework (see Section 2 Disclosure Requirement 2 (*BP-2*), paragraph 15);

[4] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

(b) meet the requirements for qualitative characteristics of information specified in chapter 2 and Appendix B of this Section.

109. The undertaking shall structure its ***sustainability statement*** in four parts, in the following order: general information, environmental information (including disclosures pursuant to Article 8 of Regulation (EU) 2020/852), social information and governance information. Respecting the provision in this Section chapter 3.6 *Material impacts or risks arising from actions to address sustainability matters* of this [draft] Standard, when information provided in one part is also covering information to be reported in another part, the undertaking may refer in one part to information presented in another part, avoiding duplications. The undertaking may apply the detailed structure illustrated in Appendix F of this [draft] Section.

110. Where the undertaking develops material entity-specific disclosures, it shall report those disclosures alongside the most relevant disclosure in this [draft] ESRS.

8. Linkages with other parts of corporate reporting and connected information

111. The undertaking shall provide information that enables users of its ***sustainability statement*** to understand the connections between different pieces of information in the statement, and the connections between the information in the sustainability statement and other information that the undertaking discloses in other parts of its corporate reporting.

8.1 Incorporation by reference

112. Provided that the conditions in paragraph 109 are met, information prescribed by a Disclosure Requirement of this [draft] ESRS, including a specific datapoint prescribed by a Disclosure Requirement, may be incorporated in the ***sustainability statement*** by reference to:

(a) another section of the management report;

(b) the financial statements;

(c) the corporate governance statement (if not part of the management report);

(d) the remuneration report required by Directive 2007/36/EC of the European Parliament and of the Council[5];

(e) the universal registration document, as referred to in Article 9 of Regulation 2017/1129[6]; and

(f) public disclosures under Regulation 575/2013 of the European Parliament and of the Council (Pillar 3 disclosures)[7]. If the undertaking incorporates by reference information from Pillar 3 disclosures, it shall ensure that the information matches the scope of consolidation used for the ***sustainability statement*** by complementing the incorporated information with additional elements as necessary.

[5] Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies (OJ L 184, 14.7.2007, p. 17).
[6] Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (OJ L 168, 30.6.2017, p. 12).
[7] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

113. The undertaking may incorporate information by reference to the documents, or part of the documents, listed in paragraph 109, provided that the disclosures incorporated by reference:

(a) constitute a separate element of information and are clearly identified in the document concerned as addressing the relevant Disclosure Requirement, or the relevant specific datapoint prescribed by a Disclosure Requirement;

(b) are published before or at the same time as the management report;

(c) are in the same language as the ***sustainability statement***;

(d) are subject to at least the same level of assurance as the sustainability statement; and

(e) meet the same technical digitalisation requirements as the sustainability statement.

114. Provided that these conditions established in paragraph 109 are met, information prescribed by a Disclosure Requirement of this [draft] ESRS, including a specific datapoint prescribed by a Disclosure Requirement, may be incorporated in the ***sustainability statement*** by reference to the undertaking's report prepared according to EU Eco-Management and Audit Scheme (EMAS) Regulation (EU) No. 1221/2009[8]. In this case, the undertaking shall ensure that the information incorporated by reference is produced using the same basis for preparation of ESRS information, including scope of consolidation and treatment of ***value chain*** information.

115. In the preparation of its ***sustainability statement*** using incorporation by reference, the undertaking shall consider the overall cohesiveness of the reported information and ensure that the incorporation by reference does not impair the readability of the sustainability statement. Appendix G *Example of incorporation by reference* of this [draft] Standard is an illustrative example of incorporation by reference (See Section 2 Disclosure Requirement 2 (*BP-2*)).

8.2 Connected information and connectivity with financial statements

116. The undertaking shall describe the relationships between different pieces of information. Doing so could require connecting narrative information on governance, strategy and risk management to related ***metrics***. For example, in providing connected information, the undertaking may need to explain the effect or likely effect of its strategy on its financial statements or financial plans, or explain how its strategy relates to metrics and targets used to measure performance. Furthermore, the undertaking may need to explain how its use of ***natural resources*** and changes within its ***supply chain*** could amplify, change or reduce its material ***impacts*** and ***risks***. It may need to link this information to information about current or anticipated financial effects on its production costs, to its strategic response to mitigate such impacts or risks, and to its related investment in new assets. The undertaking may also need to link narrative information to the related metrics and targets (when disclosing on targets) and to information in the financial statements. Information that describes connections shall be clear and concise.

117. When the individual ***sustainability statement*** includes monetary amounts or other quantitative data points that exceed a threshold of ***materiality*** and that are presented in the financial statements (direct connectivity between information disclosed in sustainability statement and information disclosed in financial statements), the undertaking shall include

[8] Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS), repealing Regulation (EC) No 761/2001 and Commission Decisions 2001/681/EC and 2006/193/EC (OJ L 342, 22.12.2009, p. 1).

a reference to the relevant paragraph of its financial statements where the corresponding information can be found.

118. The ***sustainability statement*** may include monetary amounts or other quantitative datapoints that exceed a threshold of materiality and that are either an aggregation of, or a part of, monetary amounts or quantitative data presented in the undertaking's financial statements (indirect connectivity between information disclosed in sustainability statement and information disclosed in financial statements). If this is the case, the undertaking shall explain how these amounts or datapoints in the sustainability statement relate to the most relevant amounts presented in the financial statements. This disclosure shall include a reference to the line item and/or to the relevant paragraphs of its financial statements where the corresponding information can be found. Where appropriate, a reconciliation may be provided, and it may be presented in a tabular form.

119. In the case of information not covered by paragraphs 113 and 114, the undertaking shall explain, based on a threshold of materiality, the consistency of significant data, assumptions, and qualitative information included in its individual ***sustainability statement*** with the corresponding data, assumptions and qualitative information included in the financial statements. This may occur when the sustainability statement includes:

(a) monetary amounts or other quantitative data linked to monetary amounts or other quantitative data presented in the financial statements; or

(b) qualitative information linked to qualitative information presented in the financial statements.

120. Consistency as required by paragraph 115 shall be at the level of a single datapoint and shall include a reference to the relevant line item or paragraph of notes of the financial statements. When significant data, assumptions and qualitative information are not consistent, the undertaking shall state that fact and explain the reason.

121. Examples of items for which the statement in paragraph 115 is required, are:

(a) when the same metric is presented as of the reporting date in financial statements and as a forecast for future periods in the ***sustainability statement***; and

(b) when macroeconomic or business projections are used to develop ***metrics*** in the ***sustainability statement*** and they are also relevant in estimating the recoverable amount of assets, the amount of liabilities or provisions in financial statements.

122. Topical Sections of this [Draft] ESRS may define requirements to include reconciliations or to illustrate consistency of data and assumptions for specific Disclosure Requirements. In such cases, the requirements in these Sections shall prevail.

9. Transitional provisions

9.1. Transitional provision related to section 1.2 LSME ESRS structure and reporting areas

123. [NOTE TO CONSTITUENTS: THIS TRANSITIONAL PROVISION WILL BE INCLUDED IN THE STANDARD IN CASE THE PUBLIC CONSULTATION CONFIRMS THAT EFRAG WILL ISSUE SECTOR-SPECIFIC ANNEXES TO THIS STANDARD AS BY-PRODUCT OF ITS FUTURE WORK ON SECTOR ESRS]: The extent to which ***sustainability matters*** are covered by this [draft] ESRS is expected to evolve as further Disclosure Requirements are developed. Therefore, the need for entity-specific disclosures is likely to decrease over time, in particular as a result of the future adoption of sector specific standards.

124. When defining its entity-specific disclosures, the undertaking may adopt transitional measures for their preparation in the first three annual ***sustainability statements*** under which it shall as a priority:

(a) introduce in its reporting those entity-specific disclosures that it reported in prior periods, if these disclosures meet or are adapted to meet the qualitative characteristics of information referred to under chapter 2 of this Section; and

(b) complement its disclosures, prepared on the basis of the topical Sections of this [draft] ESRS, with an appropriate set of additional disclosures to cover ***sustainability matters*** that are material for the undertaking in its sector(s), using the available best practice and/or available frameworks or reporting standards [such as IFRS industry—based guidance and GRI Sector Standards].

9.2 Transitional provision related to chapter 4 Value chain

125. For the first 3 years of the undertaking's sustainability reporting under the [draft] ESRS, in the event that not all the necessary information regarding its upstream and downstream ***value chain*** is available, the undertaking shall explain the efforts made to obtain the necessary information about its upstream and downstream value chain, the reasons why not all of the necessary information could not be obtained, and its plans of the undertaking to obtain such information in the future.

126. For the first 3 years of its sustainability reporting under this [draft] ESRS, in order to take account of the difficulties that undertakings may encounter in gathering information from actors throughout their **value chain**:

(a) when disclosing information on policies, actions and targets in accordance with Section 3 of this [draft] ESRS, the undertaking may limit upstream and downstream value chain information to information available in-house, such as data already available to the undertaking and publicly available information;

(b) when disclosing metrics, the undertaking is not required to include upstream and downstream value chain information, except for datapoints derived from other EU legislation, as listed in Section 2 Appendix B.

9.3 Transitional provision related to section 6.1 Presenting comparative information

127. To ease the first-time application of this [draft] ESRS, the undertaking is not required to disclose the comparative information required by this Section chapter *6.1 Presenting comparative information* in the first year of preparation of the ***sustainability statement*** under this [draft] ESRS. For disclosure requirements listed in Appendix C *List of phased-in Disclosure Requirements,* this transitional provision applies with reference to the first year of mandatory application of the phased-in disclosure requirement.

9.4 Transitional provision: List of Disclosure Requirements that are phased-in for [draft] ESRS to year 2 or subsequent years

128. Appendix C *List of phased-in Disclosure Requirements* in this Section sets phase-in provisions for the Disclosure Requirements or datapoints of Disclosure Requirements in in this [draft] ESRS that may be omitted or that are not applicable in the first year(s) of preparation of the ***sustainability statement*** under this [draft] ESRS. The phased-in provisions are only applicable to LSME that do not opt-out or cannot opt-out according to art.19 a (7) of Directive (EU) 2022/2464.

Appendix A: Application Requirements

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

Application requirements – Entity specific disclosures

AR 1. The entity-specific disclosures shall enable ***users*** to understand the undertaking's ***impacts*** and ***risks*** in relation to environmental, social or governance matters.

AR 2. When developing entity-specific disclosures, the undertaking shall ensure that:

(a) the disclosures meet the qualitative characteristics of information as set out in chapter 2 Qualitative characteristics of information; and

(b) its disclosures include, where applicable, all material information related to the reporting areas of governance; strategy; ***impact*** and ***risk*** management and ***metrics and targets*** (see Section 2 chapters 2 to 4, Section 3 DR 11 and DR 12 and topical Sections of this [draft] ESRS).

AR 3. When determining the usefulness of ***metrics*** for inclusion in its entity-specific disclosures, the undertaking shall consider whether:

(a) its chosen performance metrics provide insight into:

i. how effective its practices are in reducing negative outcomes for people and the environment (for impacts); and/or

ii. the likelihood that its practices result in ***financial effects*** on the undertaking (for ***risks***);

(b) the measured outcomes are sufficiently reliable, meaning that they do not involve an excessive number of assumptions and unknowns that would render the metrics too arbitrary to provide a faithful representation; and

(c) it has provided sufficient contextual information to interpret performance metrics appropriately.

AR 4. When developing its entity-specific disclosures, the undertaking shall carefully consider:

(a) comparability between undertakings, while still ensuring relevance of the information provided, recognising that comparability may be limited for entity- specific disclosures; and

(b) comparability over time: consistency of methodologies and disclosures is a key factor for achieving comparability over time.

3.3 Application requirements – Double materiality

Stakeholders and their relevance to the materiality assessment process

AR 5. In addition to the categories of stakeholder listed in paragraph 23, common categories of ***stakeholders*** are: ***employees*** and other workers, ***suppliers***, ***consumers***, customers, end-users, local communities and persons in vulnerable situations, and public authorities including regulators, supervisors and central banks.

AR 6. Nature may be considered as a silent ***stakeholder***. In this case, ecological data and data on the conservation of species may support the undertaking's ***materiality*** assessment.

AR 7. When the undertaking has engaged with affected stakeholders, ***materiality*** assessment is informed by the dialogue with them. The undertaking may engage with affected ***stakeholders*** or their representatives (such as ***employees*** or trade unions), along with users of sustainability reporting and other experts, to provide inputs or feedback on its conclusions regarding its material ***impacts*** and **risks.**

Assessment of impact materiality

AR 8. In assessing ***impact materiality*** and determining the material matters to be reported, the undertaking shall consider the following three steps:

(a) understanding of the context in relation to its impacts including its activities, business relationships, and ***stakeholders***;

(b) identification of actual and potential impacts, through engaging with relevant ***stakeholders*** and experts. In this step, the undertaking may rely on scientific and analytical research on impacts on ***sustainability matters***;

(c) assessment of the materiality of its actual and potential impacts and determination of the material matters. In this step, the undertaking shall adopt thresholds to determine which of the impacts will be covered in its ***sustainability statement.***

Characteristics of severity

AR 9. The severity is determined by the following factors:

(a) scale: how grave the negative impact is for people or the environment;

(b) scope: how widespread the negative impacts are. In the case of environmental impacts, the scope may be understood as the extent of environmental damage or a geographical perimeter. In the case of impacts on people, the scope may be understood as the number of people adversely affected; and

(c) irremediable character: whether and to what extent the negative impacts could be remediated, i.e., restoring the environment or affected people to their prior state.

AR 10. Any of the three characteristics (scale, scope, and irremediable character) can make a negative impact severe. In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

Impacts connected with the undertaking

AR 11. As an illustration:

(a) if the undertaking uses cobalt in its products that is mined using child labour, the negative impact (i.e., child labour) is connected with the undertaking's products through the tiers of ***business relationships*** in its upstream value chain. These relationships include the smelter and minerals trader and the mining enterprise that uses child labour; and

(b) if the undertaking provides financial loans to an enterprise for business activities that, in breach of agreed standards, result in the contamination of water and land surrounding the operations, this negative impact is connected with the undertaking through its relationship with the enterprise it provides the loans to.

Assessment of financial materiality

AR 12. The following are examples of how impacts and ***dependencies*** are sources of ***risks***:

(a) when the undertaking's ***business model*** depends, on a natural resource – for example water – it is likely to be affected by changes in the quality, availability and pricing of that resource;

(b) when the undertaking's activities result in negative impacts, e.g., on local communities, the activities could become subject to stricter government regulation and/or the impact could trigger consequences of a reputational nature. These have negative effects on the undertaking's brand and higher recruitment costs might arise; and

(c) when the undertaking's business partners face material sustainability-related risks, the undertaking could be exposed to related consequences as well.

AR 13. The identification of ***risks*** that affect, or could reasonably be expected to affect the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term is the starting point for ***financial materiality*** assessment. In this context, the undertaking shall consider:

(a) the existence of ***dependencies*** from natural and social resources as sources of ***financial effects*** (see paragraph 51 of this section);

(b) their classification as sources of risks (contributing to negative deviation in future expected cash inflows or increase in deviation in future expected cash outflows and/or negative deviation from an expected change in capitals not recognised in the financial statements).

AR 14. Once the undertaking has identified its ***risks***, it shall determine which of them are material for reporting. This shall be based on a combination of (i) the likelihood of occurrence and (ii) the potential size of ***financial effects*** determined on the basis of appropriate thresholds. In this step it shall consider the contribution of those risks to financial effects in the short-, medium- and long-term time based on:

(a) ***scenario***s/forecasts that are deemed likely to materialise; and

(b) potential financial effects related to ***sustainability matters*** deriving either from situations with a below the "more likely than not" threshold or assets/liabilities not (or not yet) reflected in financial statements. This includes:

i. potential situations that following the occurrence of future events may affect cash flow generation potential;

ii. capitals that are not recognised as assets from an accounting and financial reporting perspective but have a significant influence on financial performance, such as natural, intellectual (organisational), human, social and relationship capitals; and

iii. possible future events that may have an influence on the evolution of such capitals.

Sustainability matters to be included in the materiality assessment

AR 15. When performing its ***materiality*** assessment, the undertaking shall consider the following list of ***sustainability matters*** covered in the topical sections of this [draft] ESRS. When, as a result of the undertaking's materiality assessment (see Section 2 Disclosure Requirement 9 (*IR-1*)), a given sustainability matter in this list is assessed to be material, the undertaking shall report according to the corresponding Disclosure Requirements of the relevant topical sections. Using this list is not a substitute for the process of determining material matters. This list is a tool to support the undertaking's materiality assessment. The undertaking still needs to consider its own specific circumstances when determining its material matters. The undertaking, where necessary according to paragraph 14 above, shall also develop entity-specific disclosures on material ***impacts*** and ***risks*** not covered by this [draft] ESRS as described in paragraph 15 of this Section.

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
	Topic	**Sub-topic**	**Sub-sub-topics**
[draft] ESRS E1	Climate change[9]	• Climate change adaptation • Climate change mitigation • Energy	
[draft] ESRS E2	Pollution	• Pollution of air • Pollution of water • Pollution of soil • Pollution of living organisms and food resources • Substances of concern • Subtances of very high concern	
[draft] ESRS E3	Water and marine resources	• Water • Marine resources	• Water consumption • Water withdrawals • Water discharges • Water discharges in the oceans • Extraction and use of marine resources
[draft] ESRS E4	Biodiversity and ecosystems	• Direct impact drivers of biodiversity loss	• Climate Change • Land-use change, fresh water-use change and sea-use change • Direct exploitation • Invasive alien species • Pollution • Others
		• Impacts on the state of species	Examples: • Species population size • Species global extinction risk
		• Impacts on the extent and condition of ecosystems	Examples: • Land degradation • Desertification • Soil sealing
		• Impacts and dependencies on ecosystem services	
[draft] ESRS E5	Circular economy	• Resources inflows, including resource use • Resource outflows related to products and services • Waste	

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
	Topic	**Sub-topic**	**Sub-sub-topics**
[draft] ESRS S1	Own workforce	• Working conditions	• Secure employment • Working time • Adequate wages • Social dialogue • Freedom of association, the existence of works councils and the information, consultation and participation rights of workers • Collective bargaining, including rate of workers covered by collective agreements • Work-life balance • Health and safety
		• Equal treatment and opportunities for all	• Gender equality and equal pay for work of equal value • Training and skills development • Employment and inclusion of persons with disabilities • Measures against violence and harassment in the workplace • Diversity
		• Other work-related rights	• Child labour • Forced labour • Adequate housing • Privacy
[draft] ESRS S2	Workers in the value chain	• Working conditions	• Secure employment • Working time • Adequate wages • Social dialogue • Freedom of association, including the existence of work councils • Collective bargaining • Work-life balance • Health and safety
		• Equal treatment and opportunities for all	• Gender equality and equal pay for work of equal value • Training and skills development • The employment and inclusion of persons with disabilities

[9] The undertaking shall include all the information prescribed in ESRS E1 irrespective of the outcome of the materiality assessment.

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
	Topic	**Sub-topic**	**Sub-sub-topics**
			• Measures against violence and harassment in the workplace • Diversity
		• Other work-related rights	• Child labour • Forced labour • Adequate housing • Water and sanitation • Privacy
[draft] ESRS S3	Affected communities	• Communities' economic, social and cultural rights	• Adequate housing • Adequate food • Water and sanitation • Land-related impacts • Security-related impacts
		• Communities' civil and political rights	• Freedom of expression • Freedom of assembly • Impacts on human rights defenders
		• Rights of indigenous communities	• Free, prior and informed consent • Self-determination • Cultural rights
[draft] ESRS S4	Consumers and end-users	• Information-related impacts for consumers and/or end-users	• Privacy • Freedom of expression • Access to (quality) information
		• Personal safety of consumers and/or end-users	• Health and safety • Security of a person • Protection of children
		• Social inclusion of consumers and/or end-users	• Non-discrimination • Access to products and services • Responsible marketing practices
[draft] ESRS G1	Business conduct	• Corporate culture • Protection of whistle-blowers • Animal welfare • Political engagement • Management of relationships with suppliers including payment practices	
		• Corruption and bribery	• Prevention and detection including training

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
			• Incidents

5.2 Application requirements – Estimation using sector averages and proxies

AR 16. When collecting ***value chain*** information as required by paragraph 57 of this Section is impracticable, the undertaking shall estimate the information to be reported using all reasonable and supportable information. This includes, but is not limited to, internal and external information, such as data from indirect sources, sector-average data, sample analyses, market and peer groups data, other proxies or spend-based data.

AR 17. When extending the information about the reporting undertaking to include value chain information in accordance with paragraph xx the elements of the value chain with material impacts, risks or opportunities are reported on. For instance, the undertaking may - based on the materiality assessment - consider the matters working conditions and affected communities to be material for a group of farmers, while the CO_2-emissions are material in other parts of the value chain.

Appendix B: Qualitative characteristics of information

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

This appendix states the qualitative characteristics that the information presented in **sustainability statement** prepared according to this [draft] ESRS shall meet.

Relevance

QC 1. Sustainability information is relevant when it may make a difference in the decisions of users under a ***double materiality*** approach (see chapter 3 of this [draft] Standard).

QC 2. Information may make a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Sustainability information may impact decisions of users if it has predictive value, confirmatory value or both. Information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Sustainability information does not need to be a prediction or forecast to have predictive value, but rather has predictive value if employed by users in making their own predictions.

QC 3. Information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

QC 4. Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, as assessed in the context of the undertaking's sustainability reporting (see chapter 3 of this Section).

Faithful representation

QC 5. To be useful, the information must not only represent relevant phenomena, it must also faithfully represent the substance of the phenomena that it purports to represent. Faithful representation requires information to be (i) complete, (ii) neutral and (iii) free from error.

QC 6. A complete depiction of an impact, a risk (or an opportunity on a voluntary basis) includes all material information necessary for the users to understand that impact, risk or opportunity. This includes how the undertaking has adapted its strategy, risk management and governance in response to that impact, risk (or opportunity on a voluntary basis), as well as the ***metrics*** identified to set ***targets*** and measure performance.

QC 7. A neutral depiction is without bias in its selection or disclosure of information. Information is neutral if it is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that the users will receive that information favourably or unfavourably. Both negative and positive material impacts from an ***impact materiality*** perspective as well as material ***risks*** and opportunities from a ***financial materiality*** perspective shall receive equal attention.. It shall be balanced, so as to cover favourable/positive and unfavourable/negative aspects. Any aspirational sustainability information, for example ***targets*** or plans shall cover both aspirations and factors that could prevent the undertaking from achieving these aspirations in order to have a neutral depiction.

QC 8. Neutrality is supported by the exercise of prudence which is the exercise of caution when making judgements under conditions of uncertainty. Information shall not be netted or compensated to be neutral. The exercise of prudence means that opportunities are not overstated and risks are not understated. Equally, the exercise of prudence does not allow for the overstatement of risks (or the understatement of opportunities disclosed on a voluntary basis). The undertaking may present net information, if its addition to absolute values, if such presentation does not obscure relevant information and includes a clear explanation about the effects of the netting and the reasons for the netting.

QC 9. Information can be accurate without being perfectly precise in all respects. Accurate information implies that the undertaking has implemented adequate processes and internal controls to avoid material errors or material misstatements. As such, estimates shall be presented with a clear emphasis on their possible limitations and associated uncertainty (see chapter 6.2 of this Section). The amount of precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses. For example, accuracy requires that:

(a) factual information is free from material error;

(b) descriptions are precise;

(c) estimates, approximations and forecasts are clearly identified as such;

(d) no material errors have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable;

(e) assertions are reasonable and based on information of sufficient quality and quantity; and

(f) information about judgements about the future faithfully reflects both those judgements and the information on which they are based.

Comparability

QC 10. Sustainability information is comparable when it can be compared with information provided by the undertaking in previous periods and, can be compared with information provided by other undertakings, in particular those with similar activities or operating within the same industry. A point of reference for comparison can be a target, a baseline, an industry benchmark, comparable information from either other undertakings or from an internationally recognised organisation, etc.

QC 11. Consistency is related to, but is not the same as, comparability. Consistency refers to the use of the same approaches or methods for the same sustainability matter, from period to period by the undertaking and other undertakings. Consistency helps to achieve the goal of comparability.

QC 12. Comparability is not uniformity. For information to be comparable, like components shall look alike and different components shall look different. Comparability of sustainability information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

Verifiability

QC 13. Verifiability helps to give users confidence that information is complete, neutral and accurate. Sustainability information is verifiable if it is possible to corroborate either such information itself or the inputs used to derive it.

QC 14. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Sustainability information shall be provided in a way that enhances their verifiability, for example:

(a) including information that can be corroborated by comparing it with other information available to users about the undertaking’s business, about other businesses or about the external environment;

(b) providing information about inputs and methods of calculation used to produce estimates or approximations; and

(c) providing information reviewed and agreed by the ***administrative, management and supervisory bodies*** or their committees.

QC 15. Some sustainability information will be in the form of explanations or forward-looking information. Those disclosures can be supportable by faithfully representing on a factual basis for example the strategies, plans and risk analyses of the undertaking. To help users decide whether to use such information, the undertaking shall describe the underlying assumptions and methods of producing the information, as well as other factors that provide evidence that verify that it reflects the actual plans or decisions made by the undertaking.

Understandability

QC 16. Sustainability information is understandable when it is clear, and concise. Understandable information enables any reasonable knowledgeable user to readily comprehend the information being communicated.

QC 17. For sustainability disclosures to be concise, they need to (a) avoid generic "boilerplate" information, which is not specific to the undertaking; (b) avoid unnecessary duplication of information, including information also provided in financial statements; and (c) use clear language and well-structured sentences and paragraphs. Concise disclosures shall only include material information. Complementary information presented pursuant to paragraph shall108 be provided in a way that avoids obscuring material information.

QC 18. Clarity might be enhanced by distinguishing information about developments in the reporting period from "standing" information that remains relatively unchanged, from one period to the next. This can be done for example, by separately describing features of the undertaking's sustainability-related governance and risk management processes that have changed since the previous reporting period compared to those that remain unchanged.

QC 19. The completeness, clarity and comparability of sustainability disclosures all rely on information being presented as a coherent whole. For sustainability disclosures to be coherent, they shall be presented in a way that explains the context and the relationships between the related information. Coherence also requires the undertaking to provide information in a way that allows users to relate information about its sustainability-related ***impacts, risks*** and opportunities (on a voluntary basis) to information in the undertaking's financial statements.

QC 20. If sustainability-related ***risks*** and opportunities (on a voluntary basis) discussed in the financial statements have implications for sustainability reporting, the undertaking shall include in the ***sustainability statement*** the information necessary for users to assess those implications and present appropriate links to the financial statements (see chapter 8 of this Section). The level of information, granularity and technicality shall be aligned with the needs and expectations of users. Abbreviations shall be avoided and the units of measure shall be defined and disclosed.

Appendix C: List of phased-in Disclosure Requirements

This appendix is an integral part of Section 1 General requirements of this [draft] ESRS and has the same authority as the other parts of the Standard. It should be read in conjunction with Section 2 of this [draft] ESRS paragraph 16 “*Use of phase-In provisions in accordance with Appendix C of Section 1*”.

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
Section 2	DR-5	Strategy, business model and value chain	The undertaking shall report the information prescribed by Section 2 Disclosure Requirement 5 (*SBM-1*) paragraph 20(b) (list of additional significant ESRS sectors) starting from the application date specified in a Commission Delegated Act to be adopted pursuant to article 29c, of Directive 2013/34/EU.
Section 2	DR-5	Material impacts, risks and opportunities and their interaction with strategy and business model	The undertaking may omit the information prescribed by Section 2 Disclosure Requirement 7 (*SBM-3*) paragraph 37(e) (anticipated financial effects) for the first year of preparation of its sustainability statement. The undertaking may comply with Section 2 Disclosure Requirement 7 (*SBM-3*) paragraph 37(e) by reporting only qualitative disclosures for the first 3 years of preparation of its sustainability statement, if it is not possible with reasonable effort to prepare quantitative disclosures.
Section 4	E1-1	Energy consumption and mix (Energy intensity based on net revenue)	The undertaking may omit 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 information, required in paragraph 10 of this Disclosure Requirement for the first year of preparation of its sustainability statement.
Section 4	E1-2	Gross Scopes 1, 2, 3 and Total GHG emissions	Undertakings or groups not exceeding on their balance sheet dates the average number of 50 employees during the financial year (on a consolidated basis where applicable) may omit the datapoints on scope 3 emissions and total GHG emissions for the first year of preparation of their sustainability statement.

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
Section 4	E1-2	Gross Scopes 1, 2, 3 and Total GHG emissions (GHG intensity based on net revenue)	The undertaking may omit the reconciliation to the relevant line item of financial statements required in paragraph 21 of this Disclosure Requirement for the first year of preparation of its sustainability statement.
Section 4	E1-4	Anticipated financial effects from material physical and transition risks and potential climate-related opportunities	The undertaking may omit the information prescribed by E1-4 for the first year of preparation of its sustainability statement. The undertaking may comply with E1-4 by reporting only qualitative disclosures for the first 3 years of preparation of its sustainability statement, if it is not possible with reasonable effort to prepare quantitative disclosures.
Section 3 and 4	All disclosure requirements related to Biodiversity and ecosystems	All disclosure requirements related to Biodiversity and ecosystems	Undertakings or groups not exceeding on their balance sheet dates the average number of 50 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements of Section 3 and 4 related to All disclosure requirements related to Biodiversity and ecosystems for the first 2 years of preparation of their sustainability statement.
Section 4	E6	Anticipated financial effects from material environmental-related impacts and risks other than climate	The undertaking may omit the information prescribed by E6 for the first year of preparation of its sustainability statement. The undertaking may comply with E6 by reporting only qualitative disclosures, for the first 3 years of preparation of its sustainability statement.
Section 5	All disclosure requirements related to Own Workforce	All disclosure requirements related to Own Workforce	Undertakings or groups not exceeding on their balance sheet dates the average number of 50 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements related to Own Workforce for the first year of preparation of their sustainability statement.
Section 5	S1-2	Characteristics of non employee workers in the undertaking's own workforce	The undertaking may omit reporting for all datapoints in this Disclosure Requirement for the first year of preparation of its sustainability statement.
Section 5	S1-3	Collective bargaining coverage	The undertaking may omit this Disclosure Requirement with regard to its own employees in non-EEA countries for the first year of preparation of its sustainability statement.
Section 5	S1-5	Social protection	The undertaking may omit the information required under this Disclosure Requirement

			for the first year of preparation of its sustainability statement.
Section 5	S1-6	Training metrics	The undertaking may omit the information required under this Disclosure Requirement for the first year of preparation of its sustainability statement.
Section 5	S1-6	Training metrics	The undertaking may omit the breakdown by gender required under this Disclosure Requirement for the first two years of preparation of its sustainability statement.
Section 5	S1-7	Health and safety metrics	The undertaking may omit the data points on cases of work-related ill-health and on number of days lost to injuries, accidents, fatalities and work-related ill health for the first year of preparation of its sustainability statement.
Section 5	S1-7	Health and safety metrics	The undertaking may omit reporting on non-employees for the first year of preparation of its sustainability statement.
Section 5	S1-9	Incidents and severe human rights impacts	The undertaking may omit the data points on reconciliation of monetary amounts required in paragraphs 45(b) and 46(b) of this Disclosure Requirement for the first year of preparation of its sustainability statement.
Section 5	S1-10	Diversity metrics	The undertaking may omit the data point on percentage of employees with disabilities required in paragraph 50(b) of this Disclosure Requirement for the first year of preparation of its sustainability statement.
Sections 2 and 3	All disclosure requirements	All disclosure requirements	Undertakings or groups not exceeding on their balance sheet dates the average number of 50 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements and application requirements related to Workers in the value chain, Affected communities and Consumers and end-users for the first 2 years of preparation of their sustainability statement.

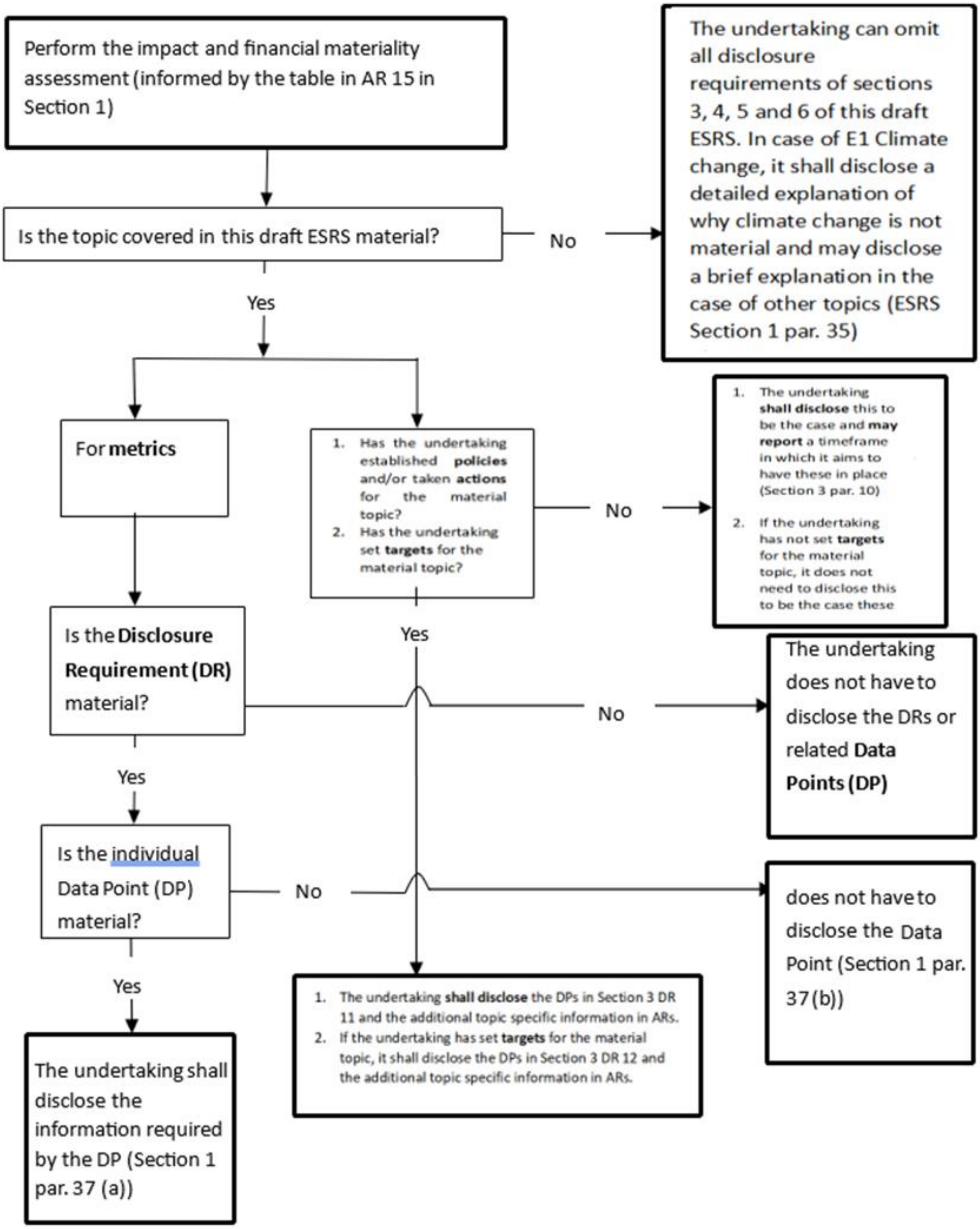
Appendix D: Structure of ESRS sustainability statements

This appendix is an integral part of this [draft] LSME ESRS and has the same authority as the other parts of the Standard with respect to reporting in four parts as outlined in paragraph 115.

Part of the management report	LSME ESRS codification	Title
1. General information	Section 2	*General disclosures*, including information provided under the Application Requirements of topical ESRS listed in ESRS 2 Appendix C.
2. Environmental information	*Not applicable*	*Disclosures pursuant to Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation)*
	Sections 2, 3 and 4	*Climate change*
		Pollution
		Water and marine resources
		Biodiversity and ecosystems
		Resource use and circular economy
3. Social information	Sections 2, 3 and 5	*Own workforce*
		Workers in the value chain
		Affected communities
		Consumers and end-users
4. Governance information	Sections 2, 3 and 6	*Business conduct*

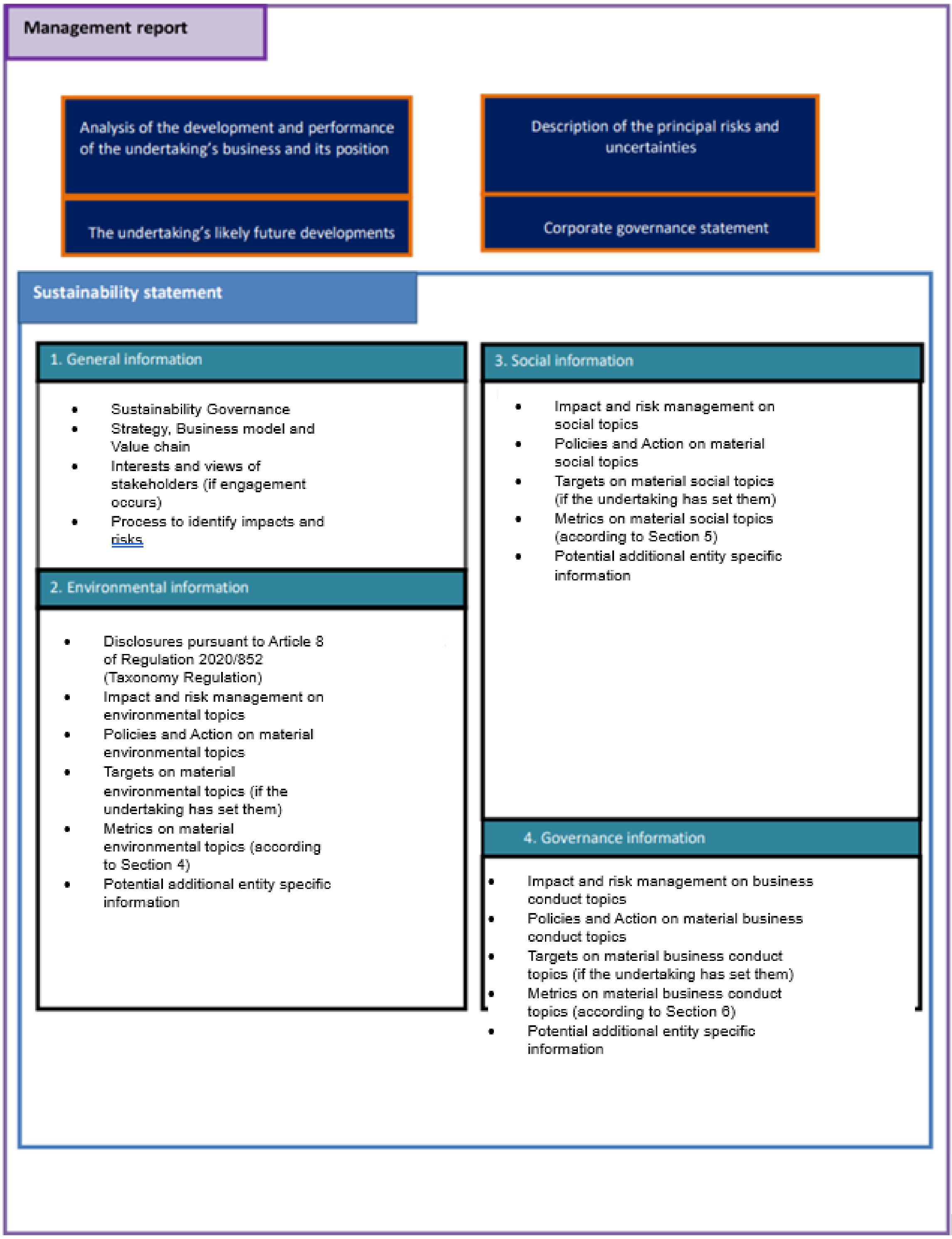
Appendix E: Flowchart for determining disclosures under LSME ESRS

Materiality assessment is the starting point for sustainability reporting under this [draft] LSME ESRS. This appendix provides a non-binding illustration of the impact- and financial materiality assessment outlined in chapter 3 of this Section. Disclosure Requirement 9 (*IR-1*) *Processes to identify and assess material impacts and risks* in section 2 of this [draft] LSME ESRS includes general disclosure requirements (DR) about the undertaking's process to identify impacts and risks and assess their materiality. Disclosure Requirement 7 (*SMB-3*) of Section 2 provides general disclosures requirements on the material impact, risks and opportunities resulting from the undertaking's materiality assessment. The undertaking can omit all disclosure requirements in a topical standard if it assessed that the topic in question is not material. In that case it may disclose a brief explanation of the conclusions of the materiality assessment for that topic but shall disclose a detailed explanation in the case of E1 climate change (Disclosure Requirement 10 (*IR-2*) in Section 2). This [draft] ESRS sets disclosure requirements, not behavioral requirements. Disclosure requirements in relation to action plans, targets, policies, scenario analysis and transition plans are proportionate because they are contingent on the undertaking having these, which may depend on the size, capacity, resources, and skills of the undertaking. Note: The flowchart below does not cover the situation in which the undertaking assesses a sustainability matter as material but it is not covered by this [draft] ESRS, in which case the undertaking shall make additional entity specific disclosures (Paragraph (32 (b) in this Section).


Perform the impact and financial materiality assessment (informed by the table in AR 15 in Section 1)
Is the topic covered in this draft ESRS material?
No
The undertaking can omit all disclosure requirements of sections 3, 4, 5 and 6 of this draft ESRS. In case of E1 Climate change, it shall disclose a detailed explanation of why climate change is not material and may disclose a brief explanation in the case of other topics (ESRS Section 1 par. 35)
Yes
For **metrics**
1. Has the undertaking established **policies** and/or taken **actions** for the material topic?
2. Has the undertaking set **targets** for the material topic?
No
1. The undertaking **shall disclose** this to be the case and **may report** a timeframe in which it aims to have these in place (Section 3 par. 10)
2. If the undertaking has not set **targets** for the material topic, it does not need to disclose this to be the case these
Is the **Disclosure Requirement (DR)** material?
Yes
No
The undertaking does not have to disclose the DRs or related **Data Points (DP)**
Yes
Is the individual Data Point (DP) material?
No
does not have to disclose the Data Point (Section 1 par. 37 (b))
Yes
The undertaking shall disclose the information required by the DP (Section 1 par. 37 (a))
1. The undertaking **shall disclose** the DPs in Section 3 DR 11 and the additional topic specific information in ARs.
2. If the undertaking has set **targets** for the material topic, it shall disclose the DPs in Section 3 DR 12 and the additional topic specific information in ARs.

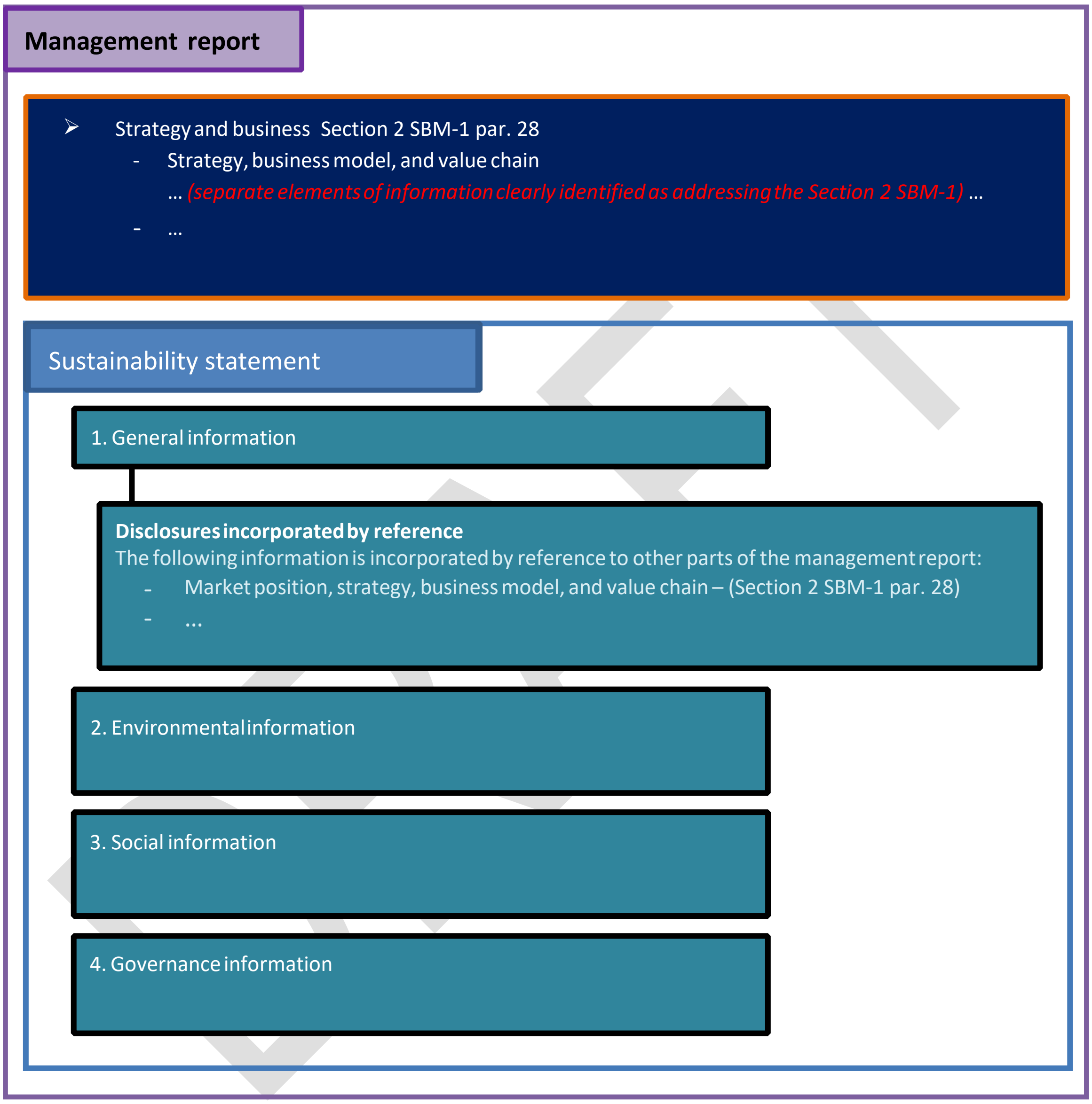
Appendix F: Example of structure of ESRS sustainability statements

This appendix complements Section 1 of this [draft] ESRS. It provides a non-binding illustration of the structure of the sustainability statement outlined in section 7.2 of this Section. In this illustration, the undertaking has concluded that biodiversity and ecosystems, pollution, and affected communities, are not material.



Appendix G: Example of incorporation by reference

This appendix complements Section 1 of this [draft] ESRS. It provides non-binding illustrations of incorporation by reference of another section of the management report into the sustainability statement as outlined in section 8.1 of this Section.



Appendix H: List of Disclosure/Application Requirements in Section 2

Disclosure/Application Requirements	To be disclosed irrespective of materiality assessment	To be disclosed "if you have"	To be disclosed on voluntary basis
Disclosure Requirement 1 (BP-1) – General basis for preparation of the sustainability statements	x		
Disclosure Requirement 2 (BP-2) – Disclosures in relation to specific circumstances	x		
Disclosure Requirement 3 (GOV-1) – The role of the administrative, management and supervisory bodies	x		
Disclosure Requirement 4 (GOV-2) - Due diligence		x	
Disclosure Requirement 5 (SBM-1) – Strategy, business model and value chain	x		
Disclosure Requirement 6 (SBM-2) – Interests and views of stakeholders		x	
Disclosure Requirement 7 (SMB-3) - Material impacts and risks and their interaction with strategy and business model	x		
Voluntary Disclosure 8 (SBM-4) – Material opportunities			x
Disclosure Requirement 9 (IR-1) - Processes to identify and assess material impacts and risks	x		
Disclosure Requirement 10 (IR-2) – Topics covered by the undertaking's sustainability statement	x		

RAG Secretariat

EFRAG is co-funded by the European Union and EEA and EFTA countries. The contents of the documents are however the sole responsibility of the EFRAG PTF- ESRS and do not necessarily reflect those of the European Union or the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA). Neither the European Union nor DG FISMA can be held responsible for them.