This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SRB. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

LSME architecture: addressing consultation feedback on VSME ED+

Objective

1. The objective of this paper is to support a decision of the SRB on whether the general approach and architecture of the ESRS LSME should be changed to adopt the “VSME ED+” approach proposed by some constituents in the consultation.

Executive summary

2. LSME ED has been built as a simplification from ESRS Set 1 (designed for large undertakings), differently from VSME ED that has been prepared specifically for SMEs. LSME need to strike an appropriate balance between the public accountability angle (its policy objective being to make available to investors information of a similar quality of the one made available for large undertakings) and the proportionality angle (to reflect the characteristics and resources of SMEs). Considering the constraints in the mandatory content of LSME as indicated in the CSDR (see **chapter 2** below), EFRAG had designed the content of LSME achieving a reduction of datapoints from ESRS Set 1 of almost 50%.
3. LSME has also the legal role of setting the value chain cap (see **chapter 5** below) for large undertakings and this has been a specific constraint for the standard setting exercise. At the same time, in practice VSME has a relevant role to play in setting this cap, as the vast majority of SMEs in supply chains of large companies are non-listed. While there is a good coverage of value chain disclosures in VSME ED, there are differences between VSME ED and LSME ED to be considered when finalizing LSME.
4. The analysis of the consultation feedback (see **chapter 3** below) shows significant concerns for the complexity of LSME ED and its capacity of reflecting the resources of SMEs. While there is support from part of the stakeholders for the architecture and in general for the capacity of LSME ED to meet the users’ needs, also among those that agree with the current architecture, some recommend to further simplify the standard. In particular, some respondents (including preparers associations and national standard setters) have suggested to adopt a VSME+ approach, i.e. starting from VSME and adding a separate module dedicated mandatory requirements for LSME.

5. The initial findings of the cost benefit analysis (see **chapter 4** below) show a very significant net negative result for the current LSME ED, indicating that a further simplification is needed to achieve an acceptable cost benefit profile in finalizing the standard.
6. Such simplification could be achieved either with a top-down approach (keeping the current architecture and simplifying the requirements) or adopting a VSME+ approach, i.e. starting from the aggregated content of the three modules of VSME and adding the requirements for LSME arising from the CSRD. In both cases, there are a number of technical steps to be considered, taking into account the detailed feedback of the consultation (see **chapter 1** below). Considering the wide support for VSME (e.g. its structure and language) as a tool proportionate to the resources of SMEs, the EFRAG Secretariat indicates a preference for VSME+ approach.
7. Questions for EFRAG SRB and points to discuss with EFRAG SR TEG to implement the simplification are provided in **chapter 7** of this paper.

1. Possible design of a VSME ED+ approach to LSME

1. In this section of the paper the EFRAG Secretariat has identified the characteristics and contents a revised LSME, built starting from the different modules of VSME ED. Please note that more detailed proposals to address the feedback of the consultation will be included in a paper for a future meeting and, as such, this is not a complete list of possible changes, nor it can preempt the future discussion on the complete feedback. It focuses on the key features of the standard and its architecture, to support the EFRAG SRB decision on whether LSME revised should be built starting from VSME ED following the VSME ED+ approach. Some of the content of this session will be rediscussed in a future meeting to allow for a confirmation of the detailed approach to be retained in LSME revised. Some of the aspects described in this paper and potentially requiring enhancement of VSME when building LSME revised according to VSME+ approach are duplicated, e.g. metrics are also SFDR indicators or are also needed from value chain perspective.
2. *Architecture:* Respondents have suggested to add a separate module dedicated to financial market participants and mandatory datapoints of LSME to the three modules currently in VSME. The EFRAG Secretariat considers that the resulting content (of the three modules plus this additional one) should be rearranged to follow the logic structure of: Cross Cutting / E / S/ G, as there will be no modular approach in LSME revised (i.e. the entirety of the standard is applicable and not sections of it).
3. *Datapoints dedicated to financial market participants:* As illustrated above, LSME revised shall to the greatest extent possible include the information that financial market participants need to comply with in their regulations (i.e., the SFDR PAI), EU Taxonomy (Reg. 2020/852) and other EU Regulations included in Set 1. VSME ED incorporates all the datapoints in SFDR table 1, as well as a number of Pillar 3 and Benchmark Regulation datapoints (see appendix C of VSME ED). The EFRAG Secretariat considers that LSME revised should include the datapoints currently in LSME ED pertaining to these regulations. An open question is whether only the mandatory PAI datapoints are to be included, or whether also those in Table 2 and 3[1] (which are included in LSME ED) should

1. As Indicators listed in table 1 are mandatory for all participants, and indicators in tables 2 and 3 are **subject to a materiality assessment by the financial market participant** (at least one indicator from table 2 and one from table 3 must be included in every PAI statement).

be included in LSME revised, either as mandatory (as in LSME ED now) or as voluntary. A detailed analysis of the feedback of the consultation specifically on each of these datapoints will be provided to support the decision on Table 2 and 3 at a future meeting.

4. *List of material impacts and risks, materiality and "if applicable":* VSME ED requires to identify and disclose the sustainability matters that are relevant to the undertaking when it applies the PAT and/or Business Partners module; no more granular identification of material impacts risks and opportunities (IROs) is required. Disclosures in the Basic Module of VSME ED are to be reported, and no materiality analysis is needed, while certain disclosures only apply to specific circumstances. Disclosures in the Business Partners module of VSME ED are to be considered and reported upon if they are applicable or if they are considered relevant to the undertaking's business and organisation, following the materiality analysis. The inclusion of material impacts and risk is an explicit requirement of the CSRD for LSME and, as such, should be maintained in the revised LSME, so this aspect of the reporting would be more granular than VSME ED. Materiality analysis should be required in revised LSME to identify them. The general materiality approach to Policies, Actions and Targets (placed in the Narrative module of VSME ED) would be maintained (report only what you have, disclose that you do not have a PAT for a material matter – note that currently in VSME ED there is no requirement to disclose that you do not have PAT for a material matter). For metrics, whenever it is possible, the "if applicable" approach should be considered in LSME revised, as one of the possible outcome of the materiality analysis, i.e. the undertaking could conclude either that the metrics is not applicable, or that it is not material and in both cases would omit it.
5. *Qualitative characteristics, valuation uncertainty, changes in preparation and presentation of sustainability information, errors in prior periods:* VSME ED requires the sustainability report to provide information that is relevant, faithful, comparable, understandable and verifiable, without providing additional guidance. Considering that LSME will be audited and has to support the public interest dimension of the information publicly released by listed companies, the EFRAG Secretariat proposes to make a reference in the revised LSME to the content of Appendix B of Set 1 Delegated Act, for more guidance on the definitions. In addition the requirement to disclose on valuation uncertainty should be retained in the revised LSME. Similarly the requirements to disclose changes in the preparation and presentation of sustainability information and errors in prior periods should be maintained.
6. *Entity specific disclosures:* With reference to entity-specific disclosure, while VSME ED requires to include information depending on the type of activities, LSME ED includes specific guidance and Application Requirements. EFRAG Secretariat, similar to what applies by the qualitative characteristics of information, considers that these Application Requirements are necessary to obtain the necessary quality for LSME.
7. *Significantly reduced disclosures:* detailed analysis will be needed to confirm whether some of the disclosures that are included in LSME ED but for which in VSME ED a very reduced disclosure is required should be enhanced in the revised LSME, taking into account specific feedback from the consultation and field test on these specific disclosures (e.g. GOV 1). Other examples are included in the section of this paper dedicated to metrics and value chain.
8. *Missing disclosures:* a detailed analysis will be needed to confirm whether the disclosures that are included in LSME ED but not in VSME ED ED should be excluded from the revised LSME, taking into account specific feedback from the consultation and field test on these

specific disclosures (e.g. IRO 1 and IRO 2). Other examples are included in the section of this paper dedicated to metrics and value chain.

9. *MDR on Policies, Actions and Targets:* considering the users needs and the purpose of the standard (to avoid discrimination from the financial market participants based on the different type of disclosure provided), the EFRAG Secretariat considers that there should be in LSME revised Minimum Disclosuire Requirements on Policies, Actions and Targets. This would replace the Disclosure N3 in the Narrative Module of VSME ED.
10. *Metrics* Some of the metrics in LSME ED are missing in VSME ED (e.g. energy intensity, detailed disclosure on GHG emissions, GHG removals, financial effects from transition risks). Others are simplified. A detailed analysis will be needed, based on the outcome of the consultation on the specific metrics, to identify the possible enhancements needed in VSME content when finalizing LSME revised.
11. *Application Requirements* (AR) in LSME ED includes methodological mandatory guidance on how to calculate and present the disclosures, as well as additional recommended guidance, voluntary disclosures and sources. The EFRAG Secretariat considers that in order to support the quality that is needed for the information to be audited, a careful analysis is needed so to maintain in LSME revised the mandatory methodological guidance that would foster the necessary comparability and relevance. Missing these elements, the result could be similar to the current quality of reports under the NFRD. The remaining content could be moved to non-binding appendices or even issued outside the Delegated Act as IG. Alternatively, a reference to the AR of Set 1 Delegated Act could be considered.
12. *Interoperability with ISSB Standards:* As illustrated above there is a good level of alignment between LSME ED and IFRS S1 and S2. The adoption of a VSME+ approach in the revised LSME could result in a loss of interoperability, unless the relevant datapoints are added. The CSRD explicitly asks to take into account **to the maximum extent possible** the global initiatives. The inclusion of additional datapoints solely for this purpose would increase the reporting costs of VSME+. An alternative could be to include these additional datapoints in a separate voluntary module of LSME revised. However the EFRAG Secretariat considers that this would result in excessive complexity.

2. Mandatory content of LSME according to the CSRD

13. Recital 21 of the CSRD indicates the function of the ESRS LSME ED. The ED is expected to support the availability of sustainability information by listed SMEs and in this way **avoid discrimination against such entities on the part of financial market participants**. LSME should be given the possibility of reporting in accordance with standards that are **proportionate to their capacities and resources**, and relevant to the scale and complexity of their activities.
14. Recital 53 of the CSRD: ESRS (for large undertakings) should not specify disclosures that would require undertakings to obtain information from small and medium-sized undertakings in their **value chain** that exceeds the information to be disclosed in accordance LSME.
15. Article 29c(2): ESRS LSME ED shall take into account the criteria set out in Article 29b(2) to (5). In particular, Article 29b(2) of the CSRD indicates that the **list of sustainability matters** to be covered in the ESRS LSME ED is **the same as the one for large undertakings** (Set 1).
16. Article 29b(5) of the CSRD: ESRS LSME ED shall to the greatest extent possible take account of:

a. the work of **global standard-setting initiatives,**
b. the information that **financial market participants need** to comply with in their regulations (i.e., the **SFDR PAI**),
c. EU Taxonomy (Reg. 2020/852) and
d. other EU Regulations included in Set 1.

17. The table in appendix A shows the comparison of Art. 19a (2) – required content of ESRS for large undertakings and Art. 19 a (6) – required content of LSME. Item a) is further detailed for large undertakings (i.e. resilience, opportunities, climate transition plan, interests and views of stakeholders, implementation of the strategy). **Despite not being explicitly required for LSME**, LSME ED covers:
    a. positive impacts and opportunities, on a voluntary basis;
    b. interests and views of stakeholders, to the extent that they are factored into the undertaking's policies/behaviour;
    c. targets, if the undertaking has adopted targets and wheter the undertaking has adopted science based targets;
    d. role of the adminstrative, management and supervisory;
    e. whether the undertaking has adopted sustainability due diligence process(es) or not (SFDR datapoint). If yes: explain;
    f. process to engage and process to remediate, to be reported only when in place.
18. In addition, the following key conceptual elements of the ESRS framework are kept unchanged:
    a. the general definition of impact materiality (including the need to cover value chain) has been kept aligned with ESRS Set 1 (value chain – VC - is not mentioned explicitly in the list of items to be covered, however LSME also plays a key role in defining the VC cap for large undertakings);
    b. the qualitative characteristics of information;
    c. requirement to include entity specific disclosure;
    d. mandatoriness of ESRS 2 corresponding datapoints, which have been simplified compared to the content to Set 1;
    e. language/terminology/defined terms have been kept aligned with Set 1 in order to foster the prevalence of a common ESRS litterature and, for EU datapoints in particular, to avoid ambiguity on the exact content of the datapoint that is needed from financial market participants.
19. The SRB discussed whether a single standard could serve the purposes of both LSME and VSME ED, or whether two standards were necessary. The final decision was that the differences in purpose (i.e. focus on investor needs for LSME and focus on simplification for VSME ED) and perimeter of application of the two respective standards (entities that make the choice to list in regulated markets for LSME and non-listed SMEs including micro entities for VSME ED) required different approaches to the requirements. The SRB considered when finalizing the ED for consultation that merging of the two standards would have failed to meet the needs of the respective constituencies, resulting either in a too complex tool for non listed SME to use, or in a lack of relevant disclosures for users of LSME. **The result was a standard wil -50% approximately of datapoints compared to the ED, but with the same standard setting approach** (see key conceptual elements above).

3. Key messages from the public consultation

20. The public consultation had an initial overall question: *Do you agree with the approach adopted to develop LSME ED as a simplification of the content of ESRS Set 1?*
21. In total, **68 respondents responded in the online survey to this question.**
    a. 50 of them agreed: one third of which preparers or associations of preparers, in particular 7 individual preparers and the rest associations); one third either users or civil society organizations), while
    b. 18 disagreed (half of which are either preparers or associations of preparers, in particular 2 preparers and the rest associations).
22. In addition, **16 respondents that sent comment letters** responded to this question,
    a. 10 of which expressed agreement (of which 3 National Standard Setters (NSS), 3 users and ESMA) and
    b. 6 disagreement (2 NSS and 4 preparers associations).
23. Some of the respondents that expressed agreement, in their detailed comments to the survey have also recommended to further simplify the standard in particular for ESRS 1 content.
24. In public outreach meetings EFRAG has heard complaints about the level of complexity and granularity of LSME, which according to these stakeholders misses the proportionality element. The issue is that the standard has been conceived as a reduction of the content in ESRS Set1, instead of having been built from a white sheet of paper "thinking small" from the beginning, which on the contrary is a strength of VSME ED and has been widely appreciated.
25. Along these lines, respondents to the consultation, including the Italian, French, Austrian and German standard setters (whose due process also includes investors' perspective), as well as preparers associations and banking authorities, expressed severe concerns and suggested an alternative approach, **identified in this paper as "VSME ED+"**. Other respondents on the contrary agree with the proposed LSME. The following provides an indication of the arguments, using quotes from some of the letters:
    a. *ED ESRS LSME should be re-designed to correspond to the current ED VSME ED ESRS. In addition to the sustainability information stemming from the three modules of the VSME ED ESRS the specific needs of the capital market participants would have to be addressed by including the "EU-datapoints" (such as information on principal adverse impact indicators, PAIs, as laid out in the SFDR)* (source: DSRC letter)
    b. *LSME as "Cap in the value chain" should be nearer from the full 3 modules of the VSME ED. ANC recommends adopting merged modules 1, 2 and 3 of the VSME ED ESRS as the LSME ESRS with necessary adaptations related in particular to mandatory PAIs from SFDR. With minor adjustments (restructuring in order to reflect a non-modular feature for SMEs with listed securities), retaining it as the LSME standard seems appropriate; for the non-listed SME, the modular and voluntary approach would remain* (source: ANC letter)*;*
    c. *Investors active on regulated markets expect the same level of transparency and reliability of all players irrespective of their size also considering that SMEs which have sought a listing on regulated markets instead of an SME Growth Market have opted into the most stringent regime. Some information on positive aspects should be required* (i.e. added to LSME): (for opportunities, it is important to*) limit (…) any divergence with international sustainability standards is one important aspect of making sure that the ESRS LSME is proportionate. In addition,* (the areas of

"report if you have) *should be aligned with Set 1. Lack of due diligence is a SFDR PAI. Clarify the difference between report if you have and if applicable.* (source: ESMA)*;*

d. *It is important that the system of reporting obligations across the different reporting standards* (Set 1 and LSME) *is aligned* (source: Danish Business Authority and 16 other respondents in the survey).

26. One respondent in the survey mentions that LSME may lead listed SMEs to consider delisting due to the increased burden.

4. Initial indications from the cost-benefit-analysis in progress

27. The recruitment of undertakings in scope of LSME for the field test has revealed that the population is very limited. Same message arrived from the Cost Benefit Analysis (CBA) in progress by the external consultant that is assisting EFRAG the CBA task. The total number will likely not exceed 3.000 companies (of which 700 listed and the rest SNCI). Most of the listed SMEs are listed in non-regulated markets. In addition, the captive reinsurers will use the subsidiary exemption. This will limit significantly the potential societal benefits expected to derive from the standard, as shown by the intermediate findings of the Cost Benefit Analysis (CBA) still in progress.
28. The consultant that is performing field work for the CBA has interviewed a sample of stakeholders from various categories and has consulted several sources (draft intermediate report has been provided to EFRAG SR TEG and SRB members and will be publicly available once finalised).
29. In the table below is shown a full result of the CBA analysis, incorporating both quantitative and qualitative aspects for listed SMEs:

NET COSTS	COMPETITIVENESS	MANAGEMENT, REPUTATION AND IMPROVED INTERNAL ORGANIZATION	INCREASED TRANSPARENCY AND ACCOUNTABILITY
‣ Based on quantifiable impacts, for listed SMEs the incremental cost of LSME is higher than expected benefit ‣ Other non-quantifiable benefits accrue to preparers (see other columns) ‣ Minimal societal benefits (environmental, social) given the extremely small scope (700 companies, small and medium)	‣ Weaker market recognition and perceived value of the LSME compared to ESRS, while similar costs ‣ Competitive imbalance between SMEs in RMs and MTFs (decrease in IPOs, de-listing from RMs) ‣ Disadvantage with non-EU competitors, due to reporting costs and disclosure of sensitive information ‣ Stronger competitive position, enhanced reputation with consumers (B2C companies) ‣ Better access to ESG indices, green markets, including public procurement	‣ Reporting fosters improving ESG performance, strategic planning and decision-making ‣ Increased awareness of ESG aspects and related risks, with positive effects on company's management ‣ Positive impacts on workers' attractiveness and retention	‣ Increase in company's legitimacy, especially vis-à-vis local communities, stakeholders, regulatory authorities
−	−/+	+ +	+

30. In particular, in the competitiveness elements, according to representatives of listed SMEs, the burdensome reporting requirements can lead to a reduction of IPOs on regulated margets (RMs), or even to the de-listing of SMEs from RMs into Multilateral Trading Facilities (MTFs), because compliance with the regulation is considered too heavy. Another imbalance is that SMEs listed in MTFs or SME Growth Markets can use the VSME ED (or any other reporting standard), engaging in voluntary ESG disclosure at a much lower cost.
31. In relation to societal benefits it was not possible to estimate them for two main reasons:
    a. literature analysing the linkages between sustainability reporting related costs and societal benefits is still under-developed because the mandatory reporting requirements are recent, and most indirect benefits are not yet visible to society

b. the small number of undertakings in scope of LSME (approximately between 2,500 and 2,700 undertakings). 761 listed SMEs in EU Regulated Markets and a number of SNCIs between 1,700 and 1,900 institutions.

32. On the qualitative aspects considered, the LSME obtains largely positive scores in the area of management, reputation and internal organisation, and of the beneficial effects in terms of transparency and accountability. As for competitiveness, publishing an LSME sustainability report can increase a company's perceived value vis à vis investors and consumers, and allow to access green markets (including via public procurement). However, the LSME also presents some risks:
    a. the costs for preparers come close to those of the ESRS, but possibly without the same market recognition and perceived value, precisely because of the reduction in data points;
    b. it worsens the competitive position of SMEs listed on RMs compared to those listed in MTFs, creating a competitive imbalance (e.g., decrease of IPOs of SMEs in RMs or de-listing);
    c. it affects the competitive position against non-EU SMEs, which (unless listed in the EU) would not bear the associated costs; and
    d. it may lead to the disclosure of potentially sensitive commercial information (e.g. on the value chain, or the company's products or processes).
33. Based on these considerations, impacts on competitiveness are mixed, but the balance is expected to be mildly negative.
34. A radically different approach, suggested by various stakeholders during the TC would be to abandon the current approach to the LSME, which is based on ESRS Set 1, and rather start from the VSME ED.
    Also assuming an increase in the estimated cost of VSME ED by 80% to 100% due to the additional datapoints that are needed in VSME ED+ (compared to VSME ED), the net effect of LSME would be positive (net benefit).

5.Implication for the Value chain cap (VC cap)

35. Should the EFRAG SRB decide to develop a VSME ED+ approach, the EFRAG Secretariat considers that the integrity of the value chain coverage for ESRS Set 1 should be maintained, i.e. VSME ED+ should be kept aligned with LSME ED for these ten areas. The analysis of the detailed feedback on each relevant datapoint should be anyway analysed to explore any possible simplification that would not impair the possibility to provide large undertakings' meaningful disclosures.
36. In total, **37 respondents answered** in the public consultation survey on LSME to the specific question on the VC cap:
    a. 22 of them agreed: one third of which preparers or associations of preparers, in particular 3 individual preparers and the rest associations); two third either users or national standard setters/national public authority). For the majority it is important to set a value chain cap to "protect" SMEs from data requests from larger businesses. This should be complemented by a tailored guidance that could support undertakings (large and SMEs) in understanding VC implications and the possibility to use sector proxies or estimates.
    b. 15 disagreed (one third of which are either preparers or associations of preparers, in particular 2 preparers and the rest associations. The rest are users or national standard setters/national public authority). The respondents that disagreed would prefer to have VSME as VC cap and some had expectation

that the cap will not work in practice due to additional request from different counterparts.

37. In addition, **9 respondents that sent comment letters** responded to this question,
    a. 7 of which expressed disagreement with LSME as VC cap (of which 4 National Standard Setters (NSS), 3 industry associations) and
    b. 2 respondents agreed with LSME setting the VC cap (1 NSS and ESMA).
38. All respondents that disagreed would prefer to have VSME ED as the VC cap or to build on VSME ED to define the so called VC cap. These respondents point out that considering that most SMEs in the value chain of large undertakings are non-listed, these companies will potentially receive a series of data requests from large undertakings. They think that if the DRs of LSME are set excessively higher than those for VSME ED, as currently proposed by EFRAG in LSME, non-listed SMEs could risk not meeting the information requests within the value chain cap. The 2 respondents that agreed would require additional guidance and examples to better explain the VC implications and the VC scope.
39. In total, **215 respondents answered** in the public consultation survey on VSME to the specific question on the VC cap:
    a. 159 of them agreed: half of which preparers or associations of preparers, in particular 80 individual preparers and the rest associations); the rest are accountant/consulting service, users and proxy users and 4 national standard setters/national public authority). For the majority it is important to set a value chain cap to “protect” SMEs from data requests from larger businesses and at the same time they expressed the need for additional guidance and examples.
    b. 56 disagreed (half of which are either in the category other as accountant/consulting service/NGO; the rest are national standard setters/national public authority, preparers and academics). The respondents that disagreed had expectation that the cap will not work in practice due to additional request from different counterparts.
40. The Appendix C to this paper shows the detailed comparison of the wording in VSME ED and LSME for the ten disclosures in ESRS Set 1 that are relevant for VC coverage.
41. The comparison shows that the following disclosures are not at all covered in VSME ED, so they should be added in VSME ED+ in order to preserve the integrity of the VC cap in ESRS Set 1:
    a. DR 9 (IR-1) – Processes to identify and assess material impacts and risks
    b. DR E1-3 – GHG removals and GHG mitigation projects financed through carbon credits
    c. DR E2-2 – Substances of concern and substances of very high concern
42. The comparison also shows that the following disclosures are partially covered, so the EFRAG Secretariat considers that they should be enhanced (and aligned with LSME ED) in order to preserve the integrity of the VC coverage in Set 1.
    a. DR 7 (SMB-3) – Material impacts and risks and their interaction with strategy and business model (VSME focus in on material sustainability matters. There is a lack in terms of requirements to disclose information on the related impacts and risks (as further noted below). Furthermore, in VSME there are no requirements (other than anticipated financial effects related to physical risks from climate change – BP5) on current and anticipated financial effects related to risks).
    b. Policies (MDR in VSME should be integrated with the request of “the most senior level in the undertaking’s organisation that is accountable for the implementation

of the policy". Furthermore, in VSME no obligation to state that there are not policies in place with reference to a material sustainability matter).

c. Actions (MDR in VSME should be integrated with information on Opex and Capex needed to implement actions. Furthermore, in VSME no obligation to state that there are not actions in place with reference to a material sustainability matter)
d. Targets (In VSME no MDR for targets)
e. Transition plan for climate (in VMSE is missing the request to disclose information related to Capex and Opex for undertakings with economic activities that are covered by EU Taxonomy)
f. DR E1-2– Gross Scopes 1, 2, 3 and Total GHG emissions - Scope 3 (SFDR Tab. 1 datapoint. In VSME Scope 3 disclosure is based on the type of activities carried out by the undertaking. It is an entity-specific disclosure)
g. DR E5-1 – Resource inflows (in VSME is missing the description of impacts and risks originating from resource inflows used in the undertaking's own operations and along its upstream value chain. Furthermore, in relation to own operations VSME should be integrated with requirements on the percentage of biological materials that are sustainability certified as well as information on the certification scheme, and the percentage of secondary material (reused) used as inflow)
h. Entity-specific disclosures (in VSME is missing the definition of the Qualitative characteristics of information and other provisions for entity-specific disclosures. Furthermore, VSME should be integrated with the content of ESRS LSME ED Section 1 AR1 to AR6).

6. Level of alignment of LSME with IFRS S1 and S2

43. Level of alignment with IFRS S1 and S2 standards. The EFRAG SRB gave priority to the simplification over the alignment with IFRS S1 and S2, assuming that listed SMEs that are exposed to international investors have the possibility to use Set 1 instead.
44. The main conceptual difference is that LSME covers opportunities only as a "may" disclosure and not as a requirement.
45. Nevertheless, there is still a very good level of alignment between LSME and IFRS[2] as shown in Appendix B[3]. The table below shows a summary at granular level:

Level of alignment	Number of disclosures[4]
Aligned	80
Partially aligned	21
Missing in LSME	21

The main gaps are related to:

- opportunities/positive impacts
- "if applicable/report if you have component" (effect of this gap expected to be limited as also in IFRS a filter of materiality applies)
- the change of the status of some DR from "shall" to "may"

[2] The comparison between the LSME Standard and IFRS was carried out following the same approach adopted in the ESRS-ISSB Interoperability Guidance.

[3] Please note that this appendix has not bee reviewed nor approved by the IFRS Foundation or ISSB.

[4] This corresponds to the lines in the IFRS ESRS Interoperability Guidance issued on 2 May 2024.

- the individual perspective of LSME
- other simplifications such as on targets, the deletion of the "resilience analysis".

7.Questions for EFRAG SRB members and observers

Questions to EFRAG SRB members and observers

46. Do you agree with the indications of the EFRAG Secretariat on:
    a. *Architecture* (paragraph 2 above)?
    b. *List of material impacts and risks, materiality and "if applicable"* (paragraph 4 above)?
    c. *Qualitative characteristics, valuation uncertainty, changes in preparation and presentation of sustainability information, errors in prior periods and entity specific disclosure* (paragraphs 5 and 6 above)?
    d. *MDR on Policies, Actions and Targets* (paragraph 9 above)?
    e. *Value chain cap (chapter 5 above)?*
47. Do you agree the *interoperability with the ISSB standards* is a second priority compared to proportionality and cost reduction, as listed SMEs that are exposed to international investors could always apply the full ESRS Set 1 (paragraph 12 above)?
48. Do you agree that the *Application Requirements* as authoritative content should be mainained but limited to the methodological requirements needed to produce comparabe and reliable information? After doing so, would you agree to include the remaining guidance in a non binding material (outside the Delegated Act or in a non binding Appendix of it) – paragraph 11 above?
49. Do you agree that EFRAG SR TEG proceeds to a detailed analysis of the consultation feedback with the purpose of defining the maximum simplification possible in LSME ED content for the below:
    a. *Datapoints dedicated to financial market participants* (paragraph 3 above)?
    b. *Significantly reduced disclosures* (paragraph 7 above)
    c. *Missing disclosures* (paragraph 8 above)
    d. *Metrics* (paragraph 10 above)
    e. *Value chain cap* (chapter 5 above).

APPENDIX A

The table below shows the comparison of Art. 19a (2) – required content of ESRS for large undertakings and Art. 19 a (6) – required content of LSME ED and how the content of LSME ED has been built.

Reporting areas in SET 1 ESRS [art 19a (2)]	Reporting areas in ESRS LSME [art 19a (6)]	Methodological approach agreed at EFRAG SR TEG and EFRAG SRB
a) **a brief description of the undertaking's business model and strategy**, including i. the resilience of the undertaking's business model and strategy in relation to risks related to sustainability matters; ii. the opportunities for the undertaking related to sustainability matters; iii. the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the 'Paris Agreement') and the objective of achieving climate neutrality by 2050, as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council*; and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities; iv. how the undertaking's business model and strategy take account of the interests of the undertaking's key stakeholders and of the impacts of the undertaking on sustainability matters; and v. how the undertaking's strategy has been implemented with regard to sustainability matters.	(a) **a brief description of the undertaking's business model and strategy;**	-Opportunities: voluntary content. - Interest of key stakeholders: to be covered only to the extent that they are factored in the undertaking's behaviour; i.e., provided that the undertaking engages with stakeholders, it shall disclose the understanding of the interests and views of its key stakeholders as they relate to the undertaking's strategy and business model to the extent that these were analysed during the materiality assessment process. - Positive impacts: voluntary.
b) a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets, and a statement on whether the undertaking's targets related to environmental factors are based on conclusive scientific evidence.		- Targets: to disclose only when the undertaking has set or adopts targets to track progress. - Scientific: whether the undertaking has set or adopted targets on GHG, pollution, water, biodiversity, resources and circular economy based on existing SMEs tools (i.e., science-based targets initiative for SMEs).
c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters and of their expertise and skills in relation to fulfilling that role or the access that those bodies have to such expertise and skills		- G1 (par.20) simplified compared to Set 1. - Art 29b (2)(c)(i): the role of the undertaking's administrative, management and supervisory bodies with regard to sustainability matters and their composition as well as their expertise and skills in relation to fulfilling that role or the access that those bodies have to such expertise and skills;
d) **a description of the undertaking's policies in relation to sustainability matters.**	(b) **a description of the undertaking's policies in relation to sustainability matters.**	
e) information about the existence of incentive schemes linked to sustainability matters, which are offered to members of the administrative, management and supervisory bodies.		
f) a description of i) the due diligence process implemented by the undertaking with regard to sustainability matters and, where applicable, in line with		- Due Diligence: disclose whether it has adopted sustainability due diligence process(es) or not (SFDR datapoint). If yes: expand.

APPENDIX B

The table below shows the comparison of LSME and IFRS S2 on climate change. This analysis leverages on the IFRS ESRS interoperability guidance released on 2 May 2024 but has not been reviewed nor approved by the ISSB.

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
GOVERNANCE							
S2.6(a)	ESRS 2.22(a)	LSME.GOV1.20(a).	Partly aligned	X			
S2.6(a)(i) reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s)	ESRS 2.22(b)	deleted	GAP in LSME				
S2.6(a)(ii)	ESRS 2.23	LSME.GOV1.17	Partly aligned	X	X		
S2.6(a)(iii) #	ESRS 2.26(a)	LSME.GOV1.20(d)(iii)	Partly aligned			X	

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
GAP IN IFRS S2 (due diligence mapping)	ESRS2.GOV4.32-33	LSME.GOV2.21-24	GAP IN IFRS S2				
S2.6(a)(iv)	ESRS 2.26(b)	deleted	GAP in LSME				
S2.6(a)(v)~~, S1.21(b)(i)(ii)~~ whether and how related performance metrics are included in remuneration policies	~~ESRS 1. 124~~						
	ESRS 2.22(d)	deleted	GAP in LSME				
	ESRS 2.29 ~~c)(d)~~ (b)						
	ESRS E1.13	Section 3 PAT MDR	Aligned				
S2.6(b)	ESRS 2.22(c)	LSME.GOV1.20(b)	Partly aligned	X			
S2.6(b)(i) delegation of the management's role of overseeing impacts, risks and opportunities to a specific management-level position or committee and how the oversight is done	ESRS 2.22(c)(i)	LSME.GOV1.20(a)	Aligned				
S2.6(b)(ii)	ESRS 2.22(c)(iii)	LSME.GOV1.20(c)	Aligned				
S2.7	ESRS 1.115	LSME.Section 1.108.	Aligned				
STRATEGY							
Climate-related risks and opportunities							
S2.10(a)	ESRS 2.48(a)	LSME.SBM-3.35(a)	Aligned				
S2.10(b)	ESRS E1.18	LSME.SBM-3.AR16	Aligned				
S2.10(c)	ESRS 2.48(e)	LSME.SBM-3.35(d)	Aligned				

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
S2.10(dc)#	ESRS1.77(a)(b)(c), ESRS 1.78, ESRS1.80, ESRS E1.AR11(b), ESRS2.BPC9(a)(b)*	LSME.Section1.74(a)(b)(c) LSME.Section1.75 LSME.Section1.77(i)(ii) LSME.BP2.8.(a)(b) LSME.IR1.AR31.(b)	Aligned				
S2.11, S1.B6(a)#	ESRS2.51, ESRS2.52, ESRS2.53, ESRS1.AR17	LSME.IR1.44 LSME.IR1.45 LSME.IR1.46	Aligned				
S2.12	ESRS1.10, ESRS1.11, ERSR1.30(a), ESRS1.130, ESRS1.131(b) *						
Business model and value chain							
S2.13(a), S1.B6(b)#	ESRS 2.48(b), ESRS1.AR17	LSME.SBM3.35(b) LSME.Section1.AR20.	Aligned				
S2.13(b)	ESRS 2.48(a); ESRS 2.AR 17	LSME.SBM3.35(a)(iii) LSME.SBM3.AR12.	Aligned				
Strategy and decision-making							

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
S2.14	ESRS2.48(b), ESRS Glossary Targets	LSME.SBM3.35(b)	Aligned				
S2.14(a)(i)	~~ESRS 2.47,~~ ESRS 2.48(b), ESRS 2.AR23, E1.AR8	LSME.SBM3.35(b)	Aligned	-	-	-	-
S2.14(a)(ii)3# **direct** mitigation and adaptation efforts	Disclosures prescribed by E-1	LSME.Section1.AR18. Footnote 9.	Aligned				
	ESRS2.MDRA.68(b)	LSME.IR3.9.(b)	Aligned				
	E1.26, E1.28	LSME.Section3.AR11 LSMESection3.AR16(a)	Aligned				
	E1.AR31	LSME.Section3.AR131.	Aligned				
S2.14(a)(iii)3# **indirect** mitigation and adaptation effort (i.e., in the value chain)	ESRS2.68(b) E1.26, E1.AR31	Comment from ESRS comparison: It is understood that the classification of direct/indirect is to be done by satisfying ESRS2.MDRA.68(b) **[LSME.IR3.9(b)]** on scope of actions, namelly if in value-chain.	Aligned				
S2 para 14(a)(iv)#*	ESRS E1. 14	LSME.Section3.AR6.ID19.	Aligned				

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
	ESRS E1. 16(a) to (ij)	LSME.Section 3.AR16.	Aligned				
	ESRS 2.69 (a), (b),#*	LSME.IR3.10.(a)(b)	Aligned				
S2.14(a)(v)	ESRS 2.68(a) to (e)	LSME.IR3.9.(a)(b)(c)(d)(e)	Aligned				
	ESRS 2.69(a), (b) and (c)	LSME.IR3.10.(a)(b)(c)	Aligned				
	ESRS 2 MDR-A and MDR-P paragraphs from 63 to 69	LSME.IR3.5-8.	Aligned				
	ESRS E1. 26	LSME.Section3.AR11 LSME.Section3.AR12 LSME.Section3.AR13	Aligned				
S2.14(b)	ESRS 2.69(a), (b), (c)	LSME.IR3.10.(a)(b)(c)	Aligned				
	ESRS E1.26	LSME.Section3.AR11 LSME.Section3.AR12 LSME.Section3.AR13	Aligned				
		LSME.Section3.AR5.	Aligned				
		LSME.Section3.AR16.(b)	Aligned				
S2.14(c)	ESRS E1.16(j)	deleted	GAP in LSME				
	ESRS 2.68(e), .	LSME.IR3.9(e)	Aligned				
Financial position, financial performance and cash flows							

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
S2.15(a)	ESRS 2.48(d)	LSME.SBM3.35(c)	Aligned				
S2.16(a)	Defined terms Current Financial Effects	LSME.SBM3.35(c)	Aligned				
S2.15(b)	ESRS 2.48(e)	LSME.SBM3.35(d)	Aligned				
S2.16(b)	ESRS 2.48(d)	LSME.SBM3.35(c)	Aligned				
S2.16(c) (i)~~-~~, (ii)	ESRS 2.48(e)	LSME.SBM3.35(d)	Aligned				
S2.16(d)	ESRS 2.48(e)	LSME.SBM3.35(d)	Aligned				
S2.17 #	E1.AR.70(aA), E1.AR.73(a), E1.AR.74(a)	LSME.E1-4.AR31(a) LSME.E1-4.AR34(a) LSME.E1-4.AR35(a)	Aligned				
S2.18-20 #	ESRS 1.AR17, E1.70	LSME.SBM4.42. LSME.Section1.AR20.-22.	Aligned				
~~S2.©(e) S2 B65(e)~~[4]	~~ESRS 1 from para 123 to para. 129~~	-	-	-	-	-	-
	~~[ESRS E1 AR 78 + ESRS 1 par. 90 ?]~~	-	-	-	-	-	-
Climate resilience							

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
S2.22(a)(i) –	ESRS E1.19	LSME.Section2.AR17.	Aligned				
	ESRS 2.48 (b)	LSME.SBM3.35(b)	Aligned				
S2.22(a)(ii)	ESRS E1©19 (c)	LSME.Section2.AR17(c)	Aligned				
	ESRS E1.AR 8 (a)	deleted	GAP in LSME				deleted the resilience analysis
S2.22(a)(iii)(1)#, (2), (3)	ESRS©E1.19 (c)	LSME.SBM3.35(b)	Aligned				
	ESRS E1.AR 8(b)	deleted	GAP in LSME				deleted the resilience analysis
S2.22(b)#	ESRS E1.19 (a), (b), (c)						
S2.22(b)(i)	ESRS E1.AR 13 (d)	LSME.Section2.AR36(d) LSME.Section2.AR17(a)(b)(c)	Aligned				
S2.22(b)(i)(1)	ESRS E1.AR 13 (a)	LSME.Section2.AR36(a)	Aligned				
S2.22(b)(i)(2)	ESRS E1.AR 11(d)	LSME.Section2.AR36(b)	Aligned				
S2.22(b)(i)(3)	E© E1.AR 12(c)	LSME.Section2.AR36	Aligned				
S2.22(b)(i)(4)	ESRS E1.21	LSME.Section2.AR32(c)	Aligned				
	ESRS E1.20 c (i)						

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
S2.22(b)(i)(5)	ESRS E1.AR 13 (b)	LSME.Section2.AR36(b)	Aligned				
S2.22(b)(i)(6)	ESRS E1.AR 13 (b)	LSME.Section2.AR36(b)	Aligned				
	ESRS E1.AR 7 (b)	deleted	GAP in LSME				deleted the resilience analysis
S2.22(b)(i)(7)	ESRS E1.AR 13 (d)	LSME.Section2.AR36(d)	Aligned				
	ESRS E1.AR 6	deleted	GAP in LSME				deleted the resilience analysis
S2.22(b) (iii)	ESRS E1.19 (b)	deleted	GAP in LSME				deleted the resilience analysis
S1.B42(c)	ESRS 1.90	LSME.Section1.87	Partly aligned				added to the *largest extent possible*
	ESRS 1.123-129	LSME.Section1.115-117	Partly aligned				only individual perspective not required a full reconciliation
	ESRS E1.AR 15	LSME.Section3. AR38	Aligned				
RISK MANAGEMENT							
S2.25(a)	ESRS E1.20	LSME.Sec2.AR29	Partly aligned	x			
	ESRS E1.22	LSME.Sec2.5					

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
	ESRS E1.23	LSME.Sec2.6					
	ESRS E1.24	LSME.Sec3.AR8					
S2.25(a)(i)	ESRS 2.53(g)	LSME.Sec2.46(c)	Aligned				
S2.25(a)(ii)*	ESRS E1.21	LSME.Sec2.AR36	Aligned*				I think that LSME, as well as ESRS Set 1, does not mandate use of scenario analysis, while IFRS does: this means the alignemnt is partial. Still the LSME has the part 'comemnsurate with the circumstances' that aligns it to IFRS slightly better than ESRS Set 1!
S2.25(a)(iii)	ESRS 2.53(c)(ii)	LSME.Sec2.50(a)	Aligned				
S2.25(Iiv)	ESRS 2.53(c)(iii)	LSME.Sec2.50(b)	Aligned				
S2.25(a)(v)	ESRS 2.53(c)	LSME.Sec2.46(b)	Partially aligned	**x**			reduced granularity
	ESRS 2.53(e)	deleted	GAP in LSME				no reference to integration in the overall risk management process
	ESRS 2.65(a)	LSME.Sec3.8(a)	parially aligned	**x**			
S2.25(a)(vi)	ESRS 2.53(h)	LSME.Sec2.46(d)	Aligned				
S2.25(b)*	ESRS 2.53(c)	LSME.Sec2.46(b)	Partially aligned*				Same as for IFRS S2.25(a)(vi), LSME doesn't have monitoring aspect The * was reported for analogy with Set1.
	ESRS 2.65(a)	LSME.Sec3.8		x			

IFRS	**ESRS**	**LSME**	**Alignment**	**Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME**	**Partly aligned because there is a "if applicable" / report if you have in LSME**	**"may" in LSME / "shall" in IFRS S2**	**Other reasons (explain)**
	ESRS E1.19 (b) (c)	LSME Sec2.34 and 35(a) and (b)					
	ESRS E1.20(c)	LSME Sec2.44		x			
	ESRS E1.24	LSME Sec3.5		x			
S2.25(c)	ESRS 2.53(e), (f)	deleted	GAP in LSME	x			The aspect ofi ntegration of of processes to identify IR(O)s in the risk management process in not included in LSME.
S2.26	ESRS 1.QC17	LSME Sec1.QC17	Aligned				
	ESRS 1.115	LSME Sec1.108					
METRICS							
S2.29(a)(i)(1-2) **	ESRS E1.44(a) and (b)	LSME Sec4.12(a) and (b)	Aligned**				
S2.29(a)(i)(3)** S2.B38–B57	ESRS E1.44(c)		Partially aligned** + footnote				Additionally, small differences with Set1: no specification 'direct and indirect' business repationships, no mention of due diligence process (only the materiality assessment is mentioned).
	ESRS 1.62–67	LSME Sec 1.58-62		x			
	ESRS 1.69 **[FOOTNOTE 6]**	LSME Sec 1.64					
	ESRS 1.QC5	LSME Sec4.12(c)					
	ESRS E1.AR39(b)	LSME Sec4.AR6(b)					

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
	ESRS E1.AR46(g)	LSME Sec4.AR12(g)					
S2 para 29(a)(ii) **[FOOTNOTE 7]**	ESRS 1.62	deleted	Aligned + footnote				not included. LSME has only the individual perspective
	ESRS E1.AR39(a)	LSME Sec4.AR6(a)					
S2.29(a)(iii)(1-3)	ESRS E1.AR39(b) [**FOOTNOTE 8**]	LSME Sec4.AR6(b)	Aligned + footnote				Imo, the GAP corresponding to Set 1 ESRS 2.77(a) and the 'if' in LSME Sec3.17 do not influence the alignment with IFRS S2: Sec4.AR6(b) on its own seems already strong enough.
	ESRS 2.77(a)	deleted. LSME does not include MDR for metrics					
	ESRS 2.80(i)	LSME Sec3.17g					
S2.29(a)(iv)*	ESRS E1.50	deleted. LSME has only the individual perspective	GAP in LSME				There's no requirement for disaggregation. LSME has only the individual perspective
S2.29(a)(v) S2.B30 S2.B31	~~ESRS E1.49~~	-	-	-	-	-	-
	ESRS E1.49(a)	LSME Sec4.18	Aligned		x		LSME is depotentiated compared to Set 1 BUT this doesn't change the level of alignment with IFRS S2.
	ESRS E1.AR45(d)	LSME Sec4.AR11(d)			x		
S2.29(a)(vi)(1) S2.B32	ESRS E1.51	LSME Sec4.19	Aligned				
	ESRS E1.~~AR~~45(c)	LSME Sec4.13(c)					
	ESRS E1.AR46(c)	LSME Sec4.AR12(c)					
	ESRS E1.AR46(i)	LSME Sec4.AR12(i)					

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
S2.29(a)(vi)(2)*	ESRS 1.131(b)	deleted	Aligned*				LSME doesn't have trasnitional provisions for entity-specific disclosures, but this doesn't affect the alignment with IFRS S2 in this specific case.
	ESRS E1.AR46(b)	LSME Sec4.AR12(b)					
S2.B19	ESRS E1.AR42	LSME Sec4.AR8	Aligned				
S2.B56(a)	ESRS E1.AR46(g)	LSME Sec4.AR12(g)	Aligned				
S2.B56(b) [**FOOTNOTE 9**]	ESRS E1.AR46	LSME Sec4.AR12	Aligned + footnote				
S2.B34	ESRS E1.AR46(f)	LSME Sec4.AR12(f)	Aligned				
S2.29(b)**	ESRS E1.67(a) and (e)	LSME Sec4.32(a) and (e)	Aligned* and **				LSME has the slight difference given by the provision that 'the undertaking may use ranges instead of a single amount.'; if the u. Chooses to disclose with ranges, it might be an alignment*, where there's choice to be made by the u. In order to maintain the alignment with IFRS S2. The alignemnt** is for analogy with Set1 mapping.
S2.29(c)**	ESRS E1.66(a) and (d)	LSME Sec4.31(a)	Aligned**				
S2.29(d)*	ESRS E1.64(c)	NA	GAP in LSME	x			No opportunities in LSME.

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
S2.29(e)*	ESRS E1.16(c) and (e)–(f)	LSME Sec3.AR16(b) and (c)	Partially aligned*	x	x		In LSME is missing the part of opportunities, but idk if in this context fo the transition plan this makes an actual difference with the transition plans mentioned in Set 1 and IFRS S2. LSME says 'if the u. has a transition plan'. Alignment* for analogy with Set1. No need to disclose if you do not have transition plan
	ESRS E1.AR4						
S2.29(f)	ESRS E1.62	NA	GAP in LSME				No carbon pricing in LSME.
	ESRS E1.63(a) and (c)	NA					
S2.29(g)(i)	ESRS 2.29(c)	NA	GAP in LSME				No provisions on disclosure of sustainability and climate-related performance metrics/considerations beign factored in remuneration in LSME.
	ESRS E1.13	NA					
S2.29(g)(ii)	ESRS E1.13	NA	GAP in LSME				No provisions on disclosure of sustainability and climate-related performance metrics/considerations beign factored in remuneration in LSME.
S2.31 S2.B65(e) S1.21	ESRS E1.AR78	LSME Sec4.AR39	Aligned				
	ESRS 1.123–129	LSME Sec1.115-117					

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
S1.50(c)	ESRS 2.77(b)	deleted. LSME does not include MDR for metrics	GAP in LSME				no MDR for metrics in LSME
S2.32*	ESRS 1.131(b)	deleted	GAP in LSME				LSME doesn't have trasnitional provisions for entity-specific disclosures, but this doesn't affect the alignment with IFRS S2.
TARGETS							
S2.33	ESRS 2.79	LSME Sec3.16	Partly aligned		x		LSME doesn't mandate disclosure on targets set, but says LSME has 'if such targets have been implemented'.
	ESRS 2.80	LSME Sec3.17			x		
	ESRS E1.30	LSME Sec3.15 and AR117					
	ESRS E1.34	LSME Sec3.AR122					
S2.33(a) S2.B67 [**FOOTNOTE 10**]	ESRS 2.79(a)	LSME Sec3.16	Partly aligned + footnote?	x	x		
	ESRS 2.80(b)	LSME Sec3.17(a)					
S2.33(b)	ESRS 2.80(a)	LSME Sec3.17(a) and AR120	Aligned or partly aligned?				LSME doesn't spcify science-based tagets shuld be set up if we tale these reference BUT AR120 and AR122(b) do mention it! Even adding AR121, that references the following, seems like LSE doesn't seem to ask for specific distinction in targets for climate change adaptationa dn mitigation: that's why I think tha alignment with ISSB might be partial isnetead of full.
	ESRS E1.33	LSME Sec3.AR121					

IFRS	**ESRS**	**LSME**	**Alignment**	**Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME**	**Partly aligned because there is a "if applicable" / report if you have in LSME**	**"may" in LSME / "shall" in IFRS S2**	**Other reasons (explain)**
S2.33(c)	ESRS E1.32	LSME Sec3.AR117	Aligned				
	ESRS 2.80(c)	LSME Sec3.17(c)					
S2.33(d)	ESRS 2.80(e)	LSME Sec3.17(e)	Aligned				
	ESRS E1.34(d)	LSME Sec3.AR122, AR128					
S2.33(e)	ESRS 2.80(d)	LSME Sec3.17(d)	Partially aligned		x		
	ESRS E1.34(c)	LSME Sec3.AR122(c)		x			
	ESRS E1.AR25	LSME Sec3.AR125					
S2.33(f)	ESRS 2.80(e)	LSME Sec3.17(e) and AR119 and AR126	Aligned				No mention in LSME Sec3.17(e) of milestones or interim targets, but if we consider also AR119 and 126 I think LSME is aligned with IFRS S2.
S2.33(g)**	ESRS 2.80(b)	LSME Sec3.17(b)	Aligned**				Aligned** for analogy with Set1.
	ESRS E1.34(a)	LSME Sec3.AR122					
	ESRS E1.AR23						
S2.33(h)	ESRS 2.80(f) [**FOOTNOTE 11**]	LSME Sec3.17(f)	Aligned + footnote				
	ESRS E1.34(e)	LSME Sec3.AR122(d)					
S2.34(a) [**FOOTNOTE 12**]	E1.34(e)	LSME Sec3.AR122(d)	Partially aligned			x	No third-paty validation of targets in LSME.
S2.34(b)	ESRS 2.80(j)	deleted	GAP in LSME				No disclosure on process for reviewing the targets in LSME.

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
S2.34(c)	ESRS 2.80(j)	LSME Sec3.17(h)	Partially aligned				LSME requires a more generally to disclose how's the progress going, without tho asking for matrics to monitor the progress like in IFRS S2.
S2.34(d)	ESRS 2.80(i)	deleted	GAP in LSME				No disclosure on revision of the targets in LSME.
S2.35	ESRS 2.80(j)	LSME Sec3.17(h)	Partially aligned				SME requires a more generally to disclose how's the progress going, without tho asking for analysis of trends or changes in the entity’s performance like in IFRS S2.
S2.36(a)	ESRS E1.34(b)*	LSME Sec3.AR122(b)	Aligned				
	ESRS E1.AR24						
S2.36(b)	ESRS E1.34(b)	LSME Sec3.AR122(b)	Partially aligned				
	ESRS E1.AR24	LSME Sec3.AR124				x	
S2.36(d)	ESRS E1.34(e)	LSME Sec3.AR122(d)	Partially aligned			x	
S2.36(e)(i)	ESRS E1.59(b)	LSME Sec4.27	Aligned				
	ESRS E1.61	LSME Sec4.28					
S2.36(e)(ii)**	ESRS E1.59~~(a) and (b)~~	LSME Sec4.27	Aligned**				Aligned** for analogy with Set1.
	ESRS E1.61(c)	LSME Sec4.28(c)					
	ESRS E1.AR62(c)	LSME Sec4.AR25(c)					

IFRS	ESRS	LSME	Alignment	Partly aligned because there is no coverage of opportunities/coverage of positive impacts in LSME	Partly aligned because there is a "if applicable" / report if you have in LSME	"may" in LSME / "shall" in IFRS S2	Other reasons (explain)
	ESRS Annex II, Table 2 (Terms defined in the ESRS): carbon credit						
S2.36(e)(iii)	ESRS E1.AR57(b)	LSME Sec4.AR20(b)	Aligned				
	ESRS E1.AR62(b)	LSME Sec4.AR25(b)					
S2.36(e)(iv)*	ESRS E1.61(c)	LSME Sec4.28(c)	Aligned*				Aligned* for analigy with Set1.
S2.37*	ESRS 1.131(b)	deleted	GAP in LSME				No references to sectors in LSME. See comment above on entity specific transitional provision

APPENDIX C

The table below shows the comparison of LSME and VSME ED test for the ten disclosures that in ESRS Set 1 have a VC coverage.

LSME	**VSME**	**GAP**
SBM-1	N1 + BP1	No relevant gap
28. The undertaking shall disclose the following information about the key elements of its general strategy that relate to or affect sustainability matters: (a) a description of: i. significant groups of products and/or services offered, including changes in the reporting period (new or removed products and/or services); ii. significant markets and/or customer groups served, including changes in the reporting period (new or removed markets and/or customer groups); iii. main countries of operation of the parent undertaking and of the subsidiaries that are connected with material impacts or risks; and iv. where applicable and material, products and services that are banned in certain markets. (b) the list of significant ESRS sectors where the company or its subsidiaries is or may be connected to material impacts. The list of sectors shall be consistent with the way sectors have been considered by the undertaking when performing its materiality assessment (which, as part of the value chain, also includes its subsidiaries) and with the way it discloses material sector information; (c) where applicable, a statement indicating, together with the related revenues, whether the undertaking is active in: i. the fossil fuel (coal, oil and gas) sector4 , i.e., whether it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council, 5 including a disaggregation of revenues derived from coal, from oil and from gas, as well as the revenues derived from Taxonomy-aligned economic activities related to fossil gas as required under Article 8(7)(a) of Commission Delegated Regulation 2021/2178; 6 ii. chemicals production, 7 i.e., whether its activities fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006;	Disclosure N 1 – Strategy: business model and sustainability – related initiatives 58. The undertaking shall disclose the key elements of its strategy and its business model, including: (a) a description of significant groups of products and/or services offered; (b) a description of significant market(s) the undertaking operates in (B2B, wholesale, retail, countries); (c) a description of main business relationships (such as key suppliers, customers distribution channels and consumers); and (d) if applicable, a description of the key elements of its strategy that relate to or affect sustainability matters. Disclosure BP 1 – Revenues from certain sectors 74. The undertaking shall include a statement indicating if it is active in one or more of the following sectors while disclosing its related revenues: (a) controversial weapons such as anti-personnel mines, cluster munitions, chemical weapons and biological weapons; and/or (b) the cultivation and production of tobacco; and/or (c) fossil fuel (coal, oil and gas) sector (i.e., the undertaking derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council 17), including a disaggregation of revenues derived from coal, from oil and from gas); and/or (d) chemicals production, as its activities fall	

LSME	VSME	GAP
iii. controversial weapons8 (anti-personnel mines, cluster munitions, chemical weapons and biological weapons); and/or iv. the cultivation and production of tobacco9 ; and (d) its sustainability-related goals, if applicable, in terms of significant groups of products and services, customer categories, geographical areas and relationships with stakeholders. 29. The undertaking shall disclose a description of its business model and value chain, including: (a) its inputs and its approach to gathering, developing and securing those inputs; (b) its outputs and outcomes in terms of current and expected benefits for customers, investors and other stakeholders; (c) the main features of its upstream and downstream value chain and the undertaking's position in its value chain; and (d) if applicable, the subsidiaries that are connected with material impacts and risks.	under Division 20.2 of Annex I to Regulation (EC) No 1893/20062 .	
SBM-3	N2 + N3+BP5	Lack of disclosures on IRs. VSME focus is on SMs. In VSME no requirements (other than anticipated financial effects related to physical risks from climate change – BP5) on current and anticipated financial effects related to risks.
35. The undertaking shall disclose its material negative impacts and risks resulting from its materiality assessment (see Disclosure Requirement IR-1 of this [draft] Standard). The disclosure shall include a description of the following: (a) the undertaking's material negative impacts, including: i. a brief description of how its material impacts affect (or, in the case of potential impacts, are likely to affect) people or the environment; ii. how its material impacts originate from or are connected to the undertaking's strategy and business model; iii. whether the undertaking is involved with the material impacts through its activities or because of its business relationships (including its subsidiaries); iv. the reasonably expected time horizons of the impacts; (b) if the undertaking has adjusted or plans to adjust its strategy and/or business model to address a material sustainability matter, it shall describe the current or planned changes to its strategy or business model(s); (c) the current financial effects of the	Disclosure N 2 – Material sustainability matters 59. The undertaking shall disclose the material sustainability matters resulting from its materiality analysis (see paragraphs 42 through 57), including a brief description of each sustainability matter (listed in accordance with paragraph 43) and of: (a) how each matter has an impact on people or the environment; (b) its actual and potential effects on the undertaking's present or future financial position and performance; and (c) its actual and potential effects on the undertaking's activities and strategy. Disclosure BP 5 – Physical risks from climate change 79. The undertaking shall disclose the anticipated financial effects that physical risks from climate change may have on the company. This disclosure is applicable only if the undertaking is exposed to material physical risks. In particular, it shall disclose: (a) the monetary amount and the percentage of the undertaking's	

LSME	VSME	GAP
undertaking's material risks on its financial position, financial performance and cash flows and the material risks for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements; (d) the anticipated financial effects of the undertaking's material risks on its financial position, financial performance and cash flows over the short-, medium- and long-term, including the reasonably expected time horizons for those effects. This may include how the undertaking expects its financial position, financial performance and cash flows to change over the short, medium- and long-term, given its strategy to manage risks, taking into consideration: i. its investment and disposal plans (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements), including plans that the undertaking is not contractually committed to; and ii. its planned sources of funding to implement its strategy; (e) changes to the material impacts and risks compared to the previous reporting period; and (f) specification of those negative impacts and risks that are covered by Disclosure Requirements included in this [draft] Standard as opposed to those covered by the undertaking using an additional entity-specific disclosure. 36. The undertaking may disclose the descriptive information required in paragraph 35 alongside the disclosures provided under the corresponding topical Sections of this [draft] Standard. If the undertaking decides to do so, it shall still present a statement of its material negative impacts and risks alongside its disclosures prepared under this chapter. 37. When disclosing information on material impacts and risks resulting from its materiality assessment, the undertaking shall apply the topic-specific information in Application Requirements SBM-3 for the topics that are material. 38. In particular, some information (summarised in the Table for AR 14 in this Section) is related to Appendix B of the Section List of datapoints in cross-cutting and topical sections that are required by EU law	total assets that can be subjected to material physical risks over the short-, medium- and long-term before considering climate change adaptation actions disaggregated by acute and chronic physical risk; (b) the proportion of assets at material physical risk addressed by the climate change adaptation actions; (c) the location of the significant assets affected by material physical risks; (d) the monetary amount and proportion (percentage) of net revenue from its business activities at material physical risk over the short-, medium- and long-term; and (e) the breakdown of the undertaking's carrying value of its real estate assets by energy efficiency classes.	
IR-1	NA	In VSME no requirements on the processes to identify and assess material impacts and risks.

LSME	**VSME**	**GAP**
Policies	N3 (b)	MDR: the most senior level in the undertaking's organisation that is accountable for the implementation of the policy No statement in case of no policies in place
8. When providing disclosures on policies, the undertaking shall include the following information: (a) a description of the key contents of the policy, including its general objectives, and of which material impacts or risks the policy relates to (b) a description of the scope of the policy in terms of activities, value chain, geographies and, if relevant, affected stakeholder groups; (c) the most senior level in the undertaking's organisation that is accountable for the implementation of the policy; (d) a reference, if relevant, to the third-party standards or initiatives that the undertaking commits to respect through the implementation of the policy; (e) if relevant, a description of the consideration given to the interest of key stakeholders in setting the policy; and (f) if relevant, whether and how the undertaking makes the policy available to potentially affected stakeholders and to stakeholders who need to help implement it.	(b) if it has policies in place, it shall describe: i. the objective(s) of the policy and which material sustainability matters it addresses; ii. the scope of the policy in terms of activities, value chain and countries where the undertaking is active; iii. if applicable, affected stakeholder groups addressed by the policy; iv. if applicable, a reference to third-party standards or initiatives that the undertaking commits to respect through the implementation of the policy; and v. the targets the undertaking uses to monitor the implementation of the policy and the progress achieved;	
Actions	N3 (c)	MDR: (d) if applicable, key actions taken (along with results) to provide for, cooperate in or support the provision of remedy for those harmed by actual material impacts; and, (e) if applicable, quantitative and qualitative information regarding the progress of actions or action plans disclosed in prior periods. OPEX and CAPEX 10. Where the implementation of an action plan requires significant operational expenditures (Opex) and/or capital

LSME	VSME	GAP
		expenditures (Capex), the undertaking shall: (a) describe the type of current and future financial and other resources allocated to the action plan, including, if applicable, the relevant terms of sustainable finance instruments such as green bonds, social bonds and green loans, the environmental or social objectives, and whether the ability to implement the actions or action plan depends on specific preconditions, e.g., granting of financial support or public policy and market developments; (b) provide the amount of current financial resources and explain how they relate to the most relevant amounts presented in the financial statements; and (c) provide the amount of future financial resources No statement in case of no actions in place
9. When providing disclosures on actions, the undertaking shall disclose the following information: (a) the list of key actions taken in the reporting year and planned for the future as well as their expected outcomes; (b) the scope of the key actions (i.e., coverage in terms of activities, value chain geographies and, where applicable, affected stakeholder groups); (c) the time horizons under which the undertaking intends to complete each key action; (d) if applicable, key actions taken (along with results) to provide for, cooperate in or support the provision of remedy for those harmed by actual material impacts; and, (e) if applicable, quantitative and qualitative information regarding the progress of actions or action plans disclosed in prior periods. 10. Where the implementation of an action plan requires significant operational expenditures (Opex) and/or capital expenditures (Capex), the undertaking shall: (a)	(c) if it has put actions in place, it shall describe: i. the list of key actions taken in the reporting year and of the actions planned for the future; ii. the scope of those actions (i.e., whether they also address actors in the value chain, whether they are implemented in different location and geographies or which affected stakeholder groups they address); iii. the time horizon under which the undertaking intends to complete each key action; and iv. the targets the undertaking uses to monitor the actions implemented and the progress achieved.	

LSME	VSME	GAP
describe the type of current and future financial and other resources allocated to the action plan, including, if applicable, the relevant terms of sustainable finance instruments such as green bonds, social bonds and green loans, the environmental or social objectives, and whether the ability to implement the actions or action plan depends on specific preconditions, e.g., granting of financial support or public policy and market developments; (b) provide the amount of current financial resources and explain how they relate to the most relevant amounts presented in the financial statements; and (c) provide the amount of future financial resources		
Targets	N3 (b)v and c)iv	No MDR for targets
. If the undertaking has implemented targets with regard to each material sustainability matter, it shall disclose the following: (a) the relationship of the target to the relevant policy objectives; (b) the defined level of ambition (quantitative and/or qualitative, depending on the nature of the target) to be achieved, including, where applicable, whether the target is absolute or relative and in which unit it is measured; (c) the scope of the target (operations, upstream and/or downstream value chain, subsidiaries, geographical boundaries or activities); (d) if applicable, the baseline value and base year from which progress is measured; (e) the timeframe to achieve the target; (f) the methodologies and significant assumptions used to define targets, including, where applicable, the selected scenario, data sources, alignment with science-based methodologies, and national, EU or international policy goals; (g) any changes in targets or underlying methodologies and assumptions adopted within the defined time horizon, together with an explanation of the rationale for those changes and their effect on comparability; and (h) the overall progress towards the defined target.	v. the targets the undertaking uses to monitor the implementation of the policy and the progress achieved; iv. the targets the undertaking uses to monitor the actions implemented and the progress achieved.	
Transition plan	BP 4	Missing the link with Capex and Opex LSME AR 16 b) and c) for undertakings with economic activities that are covered by delegated regulations on climate adaptation or mitigation under the

LSME	**VSME**	**GAP**
		Taxonomy Regulation, an explanation of any objective or plans (CapEX, CapEx plans, OpEx) that the undertaking has for aligning its economic activities (revenues, CapEx, OpEx) with the criteria established in those delegated regulations; and (c) if applicable, a disclosure of significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities.
AR 16. If the undertaking has set a transition plan for climate change mitigation, it shall include: (a) on GHG emission reduction targets (as required by Disclosure Requirement E1-4), an explanation of how the undertaking's targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement; (b) for undertakings with economic activities that are covered by delegated regulations on climate adaptation or mitigation under the Taxonomy Regulation, an explanation of any objective or plans (CapEX, CapEx plans, OpEx) that the undertaking has for aligning its economic activities (revenues, CapEx, OpEx) with the criteria established in those delegated regulations; and (c) if applicable, a disclosure of significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities	Disclosure BP 4 – Transition plan for climate change mitigation 78. The undertaking shall provide information about its transition plan for climate change mitigation with an explanation of how GHG emission reduction targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement. This disclosure is applicable only if the undertaking has adopted such a transition plan.	
Scope 3 (E1-2)	Entity specific + BP 3	Scope 3 applicable only based on the type of activities carried out by the undertaking
19. The disclosure of gross Scope 3 GHG emissions required by paragraph 12(c) shall include GHG emissions in metric tonnes of CO2eq from each significant Scope 3 category (i.e., each Scope 3 category that is a priority for the undertaking). 20. The disclosure of total GHG emissions required by paragraph 12(d) shall be the sum of Scope 1, 2 and 3 GHG emissions required by paragraphs 12(a) to 12(c)	Disclosure BP 3 – GHG emissions reduction target 77. This disclosure includes Scope 3 emissions, only when they are disclosed under paragraph 71 above and the undertaking has set GHG emission reduction targets for Scope 3 emissions. Entity-specific consideration when reporting on GHG emissions under B 3 (Basic Module) 69. Depending on the type of activities carried out by the undertaking, a quantification of its Scope 3 GHG emissions can yield relevant information (see paragraph 11 of this [draft] Standard) on the undertaking's value chain impacts on climate change. 70. Scope 3 emissions are indirect GHG emissions (other than Scope 2) that derive	

LSME	VSME	GAP
	from an undertaking's value chain. They include the activities that are upstream of the undertaking's operations (e.g., purchased goods and services, purchased capital goods, transportation of purchased goods, etc.) and activities that are downstream of the undertaking's operations (e.g., transport and distribution of the undertaking's products, use of sold products, investments, etc). If the undertaking decides to provide this metric, it should refer to the 15 types of Scope 3 GHG emissions identified by the GHG Protocol Corporate Standard and detailed by the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard. When it reports on Scope 3 GHG emissions, the undertaking includes significant Scope 3 categories (as per the Corporate Value Chain (Scope 3) Accounting and Reporting Standard) based on its own assessment of relevant Scope 3 categories. Undertakings can find further guidance on specific calculation methods for each category in the GHG Protocol "Technical guidance for Calculating Scope 3 Emissions". 71. When reporting its Scope 1 and Scope 2 emissions, if the undertaking discloses entity-specific information on its Scope 3 emissions, it shall present it together with the information required under "B 3 – Energy and greenhouse gas emissions."	
GHG removals (E1-3)	Not included	
Substance of concern (E2-2)	Not included	
Resource inflows (E5-1)	B7	description of its impacts and risks originating from resource inflows used in the undertaking's own operations and along its upstream value chain. When resource inflows are a material sustainability matter, the undertaking shall disclose for its own operations: (a) the percentage of its expenditure on resource inflows to own operations that are considered material; (b) the percentage of biological materials that are sustainability certified as well as information on the certification

LSME	VSME	GAP
		scheme, and; (c) the percentage of secondary material (recycled or reused) used as inflow. 59. The undertaking shall provide information on the methodologies used to calculate the data. It shall specify whether the data is sourced from direct measurement or estimations, and disclose the key assumptions used.
57. When an undertaking assesses that resource inflows is a material sustainability matter, it shall disclose a description of its impacts and risks originating from resource inflows used in the undertaking's own operations and along its upstream value chain. 58. When resource inflows are a material sustainability matter, the undertaking shall disclose for its own operations: (a) the percentage of its expenditure on resource inflows to own operations that are considered material; (b) the percentage of biological materials that are sustainability certified as well as information on the certification scheme, and; (c) the percentage of secondary material (recycled or reused) used as inflow. 59. The undertaking shall provide information on the methodologies used to calculate the data. It shall specify whether the data is sourced from direct measurement or estimations, and disclose the key assumptions used.	33. The disclosure shall include: (a) if the undertaking operates manufacturing, construction and/or packaging processes: the recycled content in the products (goods and materials) and their packaging produced by the undertaking; (b) if the undertaking operates manufacturing, construction and/or packaging processes: rates of recyclable content in the products and their packaging produced by the undertaking;	
Entity specific	VSME par. 11	No reference to Qualitative characteristics of information and other provisions.
Application requirements – Entity-specific disclosures AR.1 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 set out in chapter 2 Qualitative characteristics of information and that (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. Depending on the type of activities carried out by the undertaking, the inclusion of additional information (metrics and/or narrative disclosures) not covered in this [draft] Standard is appropriate in order to disclose issues that are common in the undertaking's sector, as this supports the preparation of relevant, faithful, comparable, understandable and verifiable information	relevant, faithful, comparable, understandable and verifiable information, not defined in VSME

LSME	VSME	GAP
11 and DR 12, and the topical sections of this [draft] Standard). 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 (regarding impacts) and/or ii. the likelihood that its practices result in financial effects on the undertaking (regarding risks); whether (b) the measured outcomes are sufficiently reliable, meaning whether they do not involve an excessive number of assumptions or unknowns that would otherwise render the metrics too arbitrary to constitute a faithful representation; and whether 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. AR.5 When developing its entity-specific disclosures, the undertaking shall consider whether the available and relevant frameworks, initiatives, reporting standards and benchmarks (such as technical material issued by the International Sustainability Standards Board, the Global Reporting Initiative [or sector specific ESRS]) provide elements that can support comparability to the maximum extent possible. In particular, the undertaking may 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 to the undertaking in its sector(s), by using available best practices and/or available industry-based frameworks or reporting standards [NOTE TO THE CONSTITUENTS: THIS ASPECT MAY BE ADJUSTED REFLECTING THE OUTCOME OF THE CONSULTATION ON THE APPROACH TO SECTORS FOR SME]. AR.6 AR 6. The need for entity-specific disclosures is particularly important for financial undertakings subject to [draft] ESRS LSME as the sustainability matters in these sectors are very specific. These additional disclosures may derive from sustainable finance legislation or generally accepted sustainability reporting standards and frameworks applicable to financial actors, including non-mandatory standards and guidance. EFRAG expects to issue sector ESRS dedicated to		

LSME	VSME	GAP
the financial sector that will further enhance reporting standards.		