

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR Board. 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

Cover Note

Objective

1. The purpose of this session is to share with the SR Board the main results of the internal consultation on [draft] LSME ESRS v3.1 and the [draft] VSME ESRS v1.1. During this session the Secretariat will present comments received from SRB members, addressing specific discussion points. The session also informs about feedbacks received from SR TEG and discussed at SR TEG meeting on 12 September.

Reminder of the Process

2. EFRAG Secretariat launched the complete set of documents for LSME, VSME and building block approach for the purpose of collecting written feedback from SR Board and SR TEG. The SR Board was asked to fill two questionnaires, one on VSME and one on LSME. SRB members also had the opportunity to add detailed comments where appropriate. The SR TEG was asked to provide detailed line-by-line feedback on the draft LSME v3.1 and draft VSME v1.1.
3. The internal consultation started in the last week of July and was finalised during the third week of August (3 weeks period).
4. EFRAG Secretariat has analysed the results of the SRB internal consultation and a full overview is provided in paper 04-02 and paper 04-03 for LSME and VSME respectively.
5. EFRAG secretariat has also analysed the line-by-line comments on both draft VSME v.1.1 and LSME v3.1 received from SR TEG and from SRB members. EFRAG Secretariat has also analysed the SRB replies to the on-line questionnaires on draft VSME v.1.1 and LSME v3.1.



LSME discussion points

6. Main results of the LSME Survey received from 10 SRB members.
7. Main discussion points that emerge from the LSME SRB Survey:

Main discussion points	Secretariat preliminary view
Decision tree (only focus on CSRD and EU datapoints, i.e. value chain cap and Cluster 8 should not be there)	The decision tree has been discussed several times at SR TEG and SR Board and value chain consideration shall remain, considering the CSRD “value chain cap” requirement. C8 consideration is important because LSME should be not less ambitious than C8, also considering the building blocks approach.
Approach to value chain (not clear)	The Draft LSME ESRS will define the limit of information that EFRAG may request from large undertakings, in line with art 29b(4) CSRD.
Entity-specific disclosures (to be simplified or to be made voluntary)	The topic on entity specific has already been discussed several times. The opinion prevailed to keep the same requirements as for large undertakings, to avoid unfair treatment of LSMEs’ investors compared to what they get for large undertakings

8. Main points discussed at the SR TEG 12 September 2023 were¹:
 - Section 1 (General requirements): i) Entity-specific, ii) Materiality of information, iii) Level of disaggregation;
 - Section 2 (General disclosures): i) GOV-1, ii) GOV-2, iii) SBM-1, iv) SBM-2, v) SBM-3, vi) IR-1, vii) Materiality approach;
 - Section 3 (Policies, Actions, Targets, Engagement and Remediation): i) Approach on MDR for Policies, Actions and Targets, ii) Targets, iii) ARs approach for PAT;
 - Section 4 (Environment): i) Energy intensity, ii) E1-2– Gross Scopes 1, 2, 3 and Total GHG emissions, iii) E4-1 – Impact metrics related to biodiversity and ecosystems change, iv) E1-4– Anticipated financial effects from material physical and transition risks and potential climate-related opportunities and vi) E5-2 – Resource outflows,
 - Section 5 (Social): i) S1-1 – Characteristics of the undertaking’s employees, ii) S1-6 – Training and skills development metrics, iii) S1-8 – Remuneration metrics (pay gap and total remuneration), iv) S1-9 – Incidents, complaints and severe human rights impacts;

¹ Please refer to paper 02-03 – LSME V3.1 SR TEG and SRB Summary of detailed comments for the detailed overview.

- Section 6 (Business conduct): i) G1-1 – Management of relationships with suppliers, ii) G1-2 –Anti-corruption and anti-bribery, iii) G1-3 – Political influence and lobbying activities.

VSME Discussion points

10. Main results of the LSME Survey received from 11 SRB members.

11. Main discussion points that emerge from the VSME SRB Survey:

Main discussion points	Secretariat preliminary view
Language (to be simplified)	<p>This point has to be discussed in SR TEG and SRB, as this requests contradicts the conclusion of previous decisions.</p> <p>The EFRAG Secretariat has received detailed comments on the draft from banking representatives and is analysing them to identify possible simplifications that would not compromise the clarity of the defined terms and the consistency of terminology with Set 1 ESRS.</p> <p>The EFRAG Secretariat considers that departing from the language in the relevant regulation on EU module is not appropriate.</p>
Materiality approach (to be reviewed and simplified)	<p>Materiality has been discussed in meetings with banks and SME United as a difficult aspect. They referred to the following two possible options:</p> <p><u>1/ Keep materiality but simplify language.</u> The Secretariat has reservations on simplifying the language for the fundamental principles such as the definition of material matters/information, as it has to be aligned with LSME and ESRS. Giving new definitions or using different wording causes confusion and might be considered as meaning something different. The alternative wording proposed by the SR TEG member seems to focus on users needs and omits the reference to severity.</p>



Main discussion points	Secretariat preliminary view
	<p><u>2/ not apply materiality on policies, actions, targets, and metrics (entire chapter 3) and replace with a checklist of sustainability topics (AR 16 ESRS 1 but limited to sub-topics to reduce the granularity) and apply materiality only for the EU law module (VSME step 3).</u></p> <p>Pros: extreme simplification.</p> <p>Cons: consistency of building blocks and VSME as minimum content. (can it still be minimum content if it does not include materiality?)</p> <p>The current approach to materiality is:</p> <ol style="list-style-type: none"> 1) <u>Metrics:</u> materiality of information is not applied. All the metrics are to be reported. 2) <u>Policies and Actions:</u> the undertaking only reports the policies and actions to address material matters that has in place. 3) <u>Targets:</u> whether it has adopted targets to measure its progress <p>The discussion should focus on materiality of matters: disclosing which matters are material will also allow to understand which of the material matters the undertaking has no Policies Actions or Targets in place. From one hand, assessing the materiality of matters is costly. From the other hand, disclosing the matters that are material is an essential information.</p> <p>Possible way forward:</p> <ul style="list-style-type: none"> - Include a simplified description of the material matters (sub-topics) - Use AR 16 as a ‘check-list’: disclose the table with YES/NO to indicate which topics are material. <p>However, these simplifications would not eliminate the need to run the materiality analysis in relation to the EU module datapoints (VSME step 3).</p>



Main discussion points	Secretariat preliminary view
Building block approach (step 1, step 2, step 3 “EU law module”) (to be clarified)	<p>The EFRAG Secretariat is reviewing the draft VSME to clarify the “targeted scope of use” and related steps.</p> <p>The current approach on VSME is:</p> <ul style="list-style-type: none"> - Step 1 (only metrics) – targeted scope of use for Micro - Step 2 (Metrics data-set + narrative information on general disclosures and PTA) and Step 3 (Metrics data-set + narrative information on general disclosures and PTA + EU SF datapoints module) - targeted scope of use for Small and Medium, depending on complexity, maturity and the questions they get from their business counterparties.

12. Main points discussed at the SR TEG 12 September 2023 were: i) undue cost and effort, ii) materiality (simplification); iii) potential impacts and errors in previous reporting period/estimation (simplification) iv) governance bodies gender diversity. Six discussion items related to the environmental, social and business conduct metrics. Moreover at SR TEG SR TEG 12 September 2023 were discussed other points raised by some SRB members: i) the suggestion to swap step 3 with step 2 in the building block; ii) the newly proposed social metrics on collective bargaining and adequate wage; and the additional metric on placements for trainees for VSME only.

Outreach with associations of SMEs and banks on VSME

13. EFRAG Secretariat has held a number of outreach meetings on VSME to gather feedbacks from associations of SMEs and banks across Europe. There are a number of initiatives from banks across Europe to develop questionnaires for data requests that they face for both business and reporting reasons. We understand that there is a very dynamic process in these data requests have been evolving rapidly in the last 18 months. It does not appear from those meetings that there is yet a commonly agreed questionnaire and this offers an opportunity for VSME to fill this space, provided that the standard meets their information needs.

14. The following key themes emerged from those meetings:

- a. Should the language of VSME be simplified, in line with former ex-PTF Cluster 8 proposal, or should the standard use the same terminology of Set 1? While there was a strong demand for a simpler language in general, some banking representatives pointed out that for the EU module it is not appropriate to deviate from the definitions in the relevant regulations. The EFRAG Secretariat



notes that this aspect was discussed extensively with SR TEG and SRB at the beginning of the process and the decision was to use the terminology and defined terms as in Set 1 ESRS;

b. Materiality assessment is too costly and complex for VSME and should be either simplified or eliminated (see page 3 above).

15. To note that EFRAG secretariat also organised the second VSME community workshop on 7 September 2023. The VSME community was asked to answer a written questionnaire in advance and the results were discussed. EFRAG Secretariat is also organising workshops with corporates and large corporates, to gather feedbacks from the future users of VSME.

Tentative Timetable for LSME and VSME

16. This timetable below was presented at SRB meeting 28 of June 2023 and at SR TEG at 13 of July in the context of launching the internal feedback period on LSME and VSME. **This timetable is subject to change and the effective consultation may start later than what is foreseen here, depending on the effective time needed for SR TEG and SRB to agree on the draft for consultation.**

17. In addition to the scheduled meetings, the SRB meeting on 13 September and the SR TEG meeting on 12 September have been planned to discuss the written feedback received during the internal consultation.



September				October				November				December				
Week starting																
4	11	18	25	2	9	16	23	30	6	13	20	27	4	11	18	25
Secretariat working (and holidays) and update for the final DA			SRB latest comments on LSME and VSME	4 October: SRT LSME and VSME Approval (17 fall back)	Secretariat LSME + VSME review		24 October: SRB final Approval		Editorial and linguistic review			LSME ED + VSME ED out for consultation				
5 September: SRT closed session Vienna initiative (banks questionnaire)		22 September: SRB discussion for drafting LSME and VSME (based on 12 and 13)	27 September: Final draft LSME and VSME (upload)		17 October: Final ED LSME and VSME (upload) + fall back SRT approval											
12 September: SRT discussion written feedback																
13 September: SRB discussion written feedback																

Agenda Papers

18. In addition to this cover note, agenda papers for SRB members in this session are:
- a. Agenda paper 04-02 – LSME V3.1 SRB Survey results



- b. Agenda paper 04-03 – VSME V1.1 SRB Survey results
- c. [FOR BACKGROUND ONLY] 04-04 – LSME V3.1 SR TEG and SRB Summary of detailed comments
- d. [FOR BACKGROUND ONLY] 04-05 – VSME V1.1 SR TEG and SRB Summary of detailed comments

Questions to EFRAG SRB

- 14. The EFRAG Secretariat has received input in the survey only from part of the SRB. We would be interested in knowing red flags of the other members that they would like to see addressed in order to support the issuance of VSME and LSME.
- 15. Does EFRAG SRB agrees with the EFRAG Secretariat preliminary observations presented in the tables above (Discussion points)?
- 16. Does EFRAG SRB consider that the draft should be changed to address the points for which in the SRB survey (Agenda Papers 04-02 and 04-03) show a supporting rate lower than 70/80%? Please specify for which of the points you would support a change and in which direction.

