

Annex 3: VSME ESRS v1.1

**[Draft] Voluntary ESRS v1.1
for Small- and Medium-Sized Enterprises
(VSME ESRS)**

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Editorial notes from Secretariat:

1. Text in **turquoise** correspond to SFDR PAI Table 1 (mandatory)
2. Text in **orange** corresponds to Benchmark Regulation Indicator.

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Objective, scope and context

1. The objective of this [draft] Standard is to set requirements that Micro-, Small- and Medium-Sized Undertakings within the meaning of Article 3 of Directive 2013/34/EU whose securities are not admitted to trading on a regulated market in the European Union (in the following “SME”) shall apply when they voluntarily provide a sustainability statement.
2. This [draft] Standard is applicable to all SMEs regardless of the sector of activity using standardized requirements to inform key stakeholders on sustainability related matters. It is expected to support SMEs in their dialogue with counterparties such as lenders and large undertakings that require data from SMEs in their value chain, as it sets disclosures aimed at meeting the users’ needs of such counterparties. This [draft] Standard also offers a management tool for sustainability matters for all SMEs that want to engage in a process of measuring, monitoring and managing considering relevant information. This [draft] Standard is appropriate for any SME that bears an interest (i) to engage in the Green Transition, (ii) to be able to use sustainability reporting as a good practice relevant for the implementation of the business strategy and as a management tool.
3. In particular, this [draft] Standard aims at:
 - (a) enabling the inclusion of SMEs in the transition process towards a low carbon economy;
 - (b) reducing the cost of transition for SMEs;
 - (c) facilitating access to sustainable finance;
 - (d) satisfying the proportionate sustainability criteria that will be requested from SMEs by stakeholders; and
 - (e) mitigating the outcome of the so-called trickle-down effect.¹
4. The reporting areas of this [draft] Standard provide the SME with guidance for the implementation of an initial level of actions for environmental, social, and business conduct (governance) matters. This [draft] Standard also represents the entry-level building-block of reporting that may facilitate the integration with other more advanced ESRS levels (ESRS for Listed Small- and Medium-Sized Undertakings (LSME ESRS) or “full” ESRS for Large Undertakings) and with possible future sector-specific standards (“advanced level” of voluntary reporting disclosures). [NOTE: THIS PARAGRAPH WILL BE MOVED TO BASIS FOR CONCLUSIONS/EXPLANATORY NOTE]
5. This [draft] Standard is non-authoritative and complements the European Sustainability Reporting Standards. It derives its General Requirements and General Disclosure from ESRS for large undertakings adjusted to be proportionate to SMEs.

¹ The trickle-down or value chain effect, an effect [EFAA](#) identified in relation to financial reporting. This effect is where SMEs that are not directly within scope of the proposed CSRD end up having to prepare sustainability information in any case to satisfy the information needs of larger, ‘in scope’ companies/stakeholders that are in their value chain.

General requirements

6. This chapter sets out the general requirements that SMEs shall comply with when preparing and presenting a sustainability statement.

1 Categories of disclosures

1.1 Complying with [draft] VSME ESRS

7. The SME shall disclose, in accordance with this [draft] Standard, material information regarding negative impacts and risks in relation to environmental, social, and business conduct (governance) matters. The information shall enable the understanding of the SME's negative impacts on those matters and how they affect the SME's financial position, financial performance and cash flows.
8. The SME shall integrate its disclosure resulting from the application of this standard with additional information on a material matter not covered or not sufficiently covered by this standard, when such integration supports a better understanding of its sustainability-related impacts and financial risks.
9. In addition, on a voluntary basis, the SME may disclose the information illustrated in section 4.6 below
10. Micro undertakings may limit their sustainability statement to Disclosure Requirement 1 and the metrics part of this [draft] Standard (paragraphs 52 to 69) that defines a minimum data-set. Accordingly, they are not subject to paragraphs 17 to 24.
11. Medium sized undertakings may apply on a voluntary basis the more advanced level of LSME ESRS.

1.2 [draft] VSME ESRS structure and reporting areas

12. This [draft] Standard is composed of the following:
- (a) general requirements;
 - (b) general disclosures for:
 - (i) **governance**: the governance processes, controls and procedures used to monitor and manage impacts and risks;
 - (ii) **strategy**: how the SME's strategy and business model interact with its material impacts and risks and the related material topics and subtopics; and
 - (iii) **management of material topics and subtopics**; the process(es) by which the SME manages material sustainability matters through policies, actions and targets; and
 - (c) **metrics**, how the SME measures its performance, with key indicators for:
 - (i) environmental;
 - (ii) social; and
 - (iii) business conduct (governance).

2 Qualitative characteristics of information

13. When preparing its sustainability statement, the SME shall apply:

- (a) the fundamental qualitative characteristics of information, i.e., **relevance** and **faithful representation**; and
- (b) the enhancing qualitative characteristics of information, i.e., **comparability**, **verifiability** and **understandability**.

3 Double materiality as the basis for sustainability disclosures

14. The SME shall report on sustainability matters based on the double materiality principle as defined and explained in this chapter. A sustainability matter meets the criteria of double materiality if it is material from either the impact perspective or the financial perspective or both perspectives.

3.1 Stakeholder and their relevance to the materiality assessment process

15. Stakeholders are those who can affect or be affected by the undertaking. There are two main groups of stakeholders:
- (a) affected stakeholders: individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking’s activities and its direct and indirect **business relationships** across its value chain; and
 - (b) users of **sustainability statements**: primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors, including asset managers, credit institutions, insurance undertakings), as well as other users, including the undertaking’s business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics.
16. Some, but not all, stakeholders may belong to both groups defined in paragraph 15. An SME may engage with stakeholders in its materiality assessment.

3.2 Material matters and materiality of information

17. Performing a materiality assessment is necessary for the SME to identify the material matters to be reported on. The SME shall refer to the list of sustainability matters reported in Appendix B of this standard to identify which matters are material to it.
18. The SME shall include in its sustainability statement all the information required in this standard, which are indicated with ‘shall disclose’. In determining the level of details necessary to comply with narrative information required by this standard, the SME shall include information that is material and that allows to comply with the required qualitative characteristics of the information.

3.3 Impact materiality

19. A sustainability matter is material from an impact perspective when it pertains to the undertaking’s material actual or potential, impacts on people or the environment over the short-, medium-, and long-term time horizons. Impacts includes those connected with the undertaking’s own operations and value chain, including through its products and services as well as through its business relationships.
20. For actual negative impacts, materiality is based on the severity of the impact, while for potential negative impacts it is based on the severity and likelihood of the impact. Severity is based on:
- (a) the scale;
 - (b) scope; and
 - (c) irremediable character of the impact.

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

3.4 Financial materiality

22. A sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material financial effects on the undertaking. This is the case when a sustainability matter generates or may generate risks or opportunities that have a material influence, or could reasonably be expected to have a material influence, on the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term. Risks and opportunities may derive from past events or future events. The financial materiality of a sustainability matter is not constrained to matters that are within the control of the SME but includes information on material risks attributable to business relationships with other undertakings or stakeholders beyond the scope of consolidation used in the preparation of financial statements.
23. Dependencies from natural and social resources are sources of financial risks or opportunities. Dependencies may trigger effects in two possible ways:
- (a) they may influence the undertaking's ability to continue to use or obtain the resources needed in its business processes, as well as the quality and pricing of those resources; and
 - (b) they may affect the undertaking's ability to rely on relationships needed in its business processes on acceptable terms.
24. The materiality of risks is assessed based on a combination of the likelihood of occurrence and the potential magnitude of the financial effects.

4 Preparation and presentation of sustainability information

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

4.1 Presenting comparative information

26. The SME shall disclose comparative information in respect of the previous period for all metrics disclosed in the current period. When such information would be relevant to an understanding of the current period's sustainability statement, the SME shall also disclose comparative information for narrative sustainability disclosures.

4.2 Time horizons

27. When preparing its sustainability statement, the SME shall adopt the following definitions as of the end of the reporting period:
- (a) for the short-term time horizon: the period adopted by the SME as the reporting period in its financial statement;
 - (b) for the medium-term time horizon: from the end of the short-term reporting period per (a) above to five years; and
 - (c) for the long-term time horizon: more than five years.

4.3 Consistency and connectivity of disclosures

28. The SME:

- (a) shall report sustainability related information that is consistent with its financial statements, and
- (b) may connect its financial and sustainability related information through appropriate references or reconciliations.

4.4 Location of the sustainability statement and incorporation by reference

- 29. The SME shall present its sustainability statement in a separate report or, if applicable, may present it as a distinct part of or integrated in the management report.
- 30. To avoid duplication of reported information the SME may refer in its sustainability statement to disclosures that it reports in other parts of its corporate reporting that are released at the same time and as accessible as the sustainability statement (incorporation by reference).
- 31. When using incorporation by reference, the SME shall disclose in its sustainability statement a reference to the information incorporated by reference.

4.5 Proportionality

- 32. The SME shall report on sustainability matters considering proportionality. Proportionality is defined by what is available or accessible for the SME at an affordable, reasonable and feasible cost. Proportionality should take into account the characteristics of SMEs, as well as the scale and complexity of their activities. This voluntary standard is providing the Disclosure Requirements proportionate to SME.

4.6 Optional disclosures

- 33. The SME may provide additional optional, sector-agnostic or sector-specific disclosures not mandated by this standard. In particular, the SME may:
 - (a) disclose material information regarding positive impacts in relation to environmental, social, and business conduct (governance) matters; and/or
 - (b) disclose sustainability-related financial opportunities that generate or could reasonably be expected to generate material financial effects in the short-, medium- or long-term. The SME should not report on opportunities for which the SME has not put in place or does not plan to put in place concrete actions to pursue them, accompanied by appropriate resources; and/or
 - (c) report on the additional EU law module of this standard (Appendix C) to be compliant with the following EU regulations: Sustainable Finance Disclosure Regulation, Benchmark Regulation and Capital Requirement Regulation (Pillar 3 ESG). This may increase attractiveness from the investors stand-point.
- 34. The information shall be:
 - (a) reported alongside the most related Disclosure Requirements of this [draft] Standard; and
 - (b) reflect the qualitative characteristics of information (paragraph 13).

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

- 35. The SME is not required to disclose classified information or sensitive information, even if such information is considered material.

36. When disclosing information about its strategy, plans and actions, where a specific piece of information corresponding to intellectual property, know-how or the results of innovation is relevant, the SME may omit that specific piece of information if it:
- (a) is secret;
 - (b) has commercial value because it is secret; and
 - (c) has been subject to reasonable steps by the SME to keep it secret.

General Disclosures

5 Basis for preparation

Disclosure Requirement 1 – Basis for preparation of the sustainability statement

37. The SME shall disclose:
- (a) whether the sustainability statement has been prepared on a consolidated or individual basis;
 - (b) for a consolidated sustainability statement, a specification of the related reporting scope (i.e. subsidiaries); and
 - (c) if applicable, to what extent the sustainability statement covers the SME's upstream and downstream value chain.
38. The SME shall state if it has applied:
- (a) as micro entity only the key metrics part of this [draft] Standard (paragraph 52 to 69); or
 - (b) this VSME [draft] Standard
 - (i) excluding the additional EU law module; or
 - (ii) including the additional EU law module (see appendix C).

Disclosure Requirement 2 – Significant uncertainty and changes in preparation and presentation

39. When significant estimation uncertainty or significant outcome uncertainty exists, the SME shall:
- (a) identify metrics it has disclosed that have significant estimation uncertainty; and
 - (b) per those metrics disclose information about the assumptions it makes related to the information it discloses.
40. When changes in the preparation and presentation of sustainability information occur compared to the previous reporting period(s), such as the redefinition or replacement of a metric (or target), the SME shall:
- (a) explain the changes; and
 - (b) where possible with reasonable effort, provide restated comparative figures.
41. The SME may report this information alongside the disclosures to which they refer.

6 Governance²

Disclosure Requirement 3 – Responsibilities in relation to sustainability matters

42. The SME shall describe:
- a) the governance structure, in relation to sustainability matters. If applicable, this disclosure shall cover roles and responsibilities of the highest governance body or of an individual in its organisation, in managing or (if applicable) exercising oversight over those in charge of managing material sustainability matters; and
 - b) when there is a governance body, the related gender diversity ratio³.

7 Strategy

Disclosure Requirement 4 – Business model, strategy and value chain

43. The SME shall disclose the key elements of its strategy that relate to or impact sustainability matters and its business model, including:
- c) a description of products and/or services offered;
 - d) a description of market(s) the SME operates in (B2B, wholesale, retail, geography);
 - e) a description of, and if applicable the key elements of its strategy that relate to or affect sustainability matters; and
 - f) if applicable, the participation to business associations, underwriting of ethical codes of conduct.
44. The SME shall disclose a general description of its value chain, including;
- (a) main features of its upstream and downstream value chain; and
 - (b) main business actors (such as key suppliers, customers distribution channels and end-users) and their relationship to the SME.

Disclosure Requirement 5 – Key stakeholders

45. If the SME engages with stakeholders, it may disclose on its engagement with them.
46. The disclosure may include:
- (a) the list of its key stakeholders; and
 - (b) a brief description of the engagement activities.

² Governance refers to the way that organizations are managed at the highest level, and the systems for doing this (source: online Cambridge Dictionary)

³ Indicator #13 Table 1 of Annex 1 (“Board gender diversity”)

8 Management of material matters

Disclosure Requirement 6 – Material sustainability matters

47. The SME shall disclose its material sustainability matters (as defined in Appendix B “List of sustainability matters”) resulting from its materiality assessment (see chapter 3.3 *Impact materiality* and 3.4 *Financial materiality*). The disclosure shall include the following:
- (a) the SME’s material sustainability matters, including a brief description of them and how they affect people or the environment; and
 - (b) if applicable, the current and anticipated effects of material sustainability matters on present or future revenues or equity and, if applicable, the effects on its strategy and decision-making.
48. The SME may disclose, if applicable, how its material matters interact with its strategy.

Disclosure Requirement 7 – Material matters and related policies, actions, metrics and targets

49. The SME shall disclose:
- (c) whether it has adopted policies or actions to address its material matters, i.e. to prevent, mitigate and remediate actual and potential material negative impacts and/or to address material financial risks; and
 - (d) whether it has adopted targets to measure effectiveness of its actions.
50. If so, the SME shall disclose how it is affected by material sustainability matters.
51. If such policies, actions and/or targets are in place to address material sustainability matters, the SME shall disclose a description of them and indicate which matter they address. The following elements support the preparation of these descriptions:
- (a) when describing its policies, the SME shall consider: the general objectives and which material matters the policy is relating to; its scope in terms of activities, value chain, geographies and, if relevant, affected stakeholder groups; a reference, if applicable, to the third-party standards or initiatives the SME commits to respect through the implementation of the policy;
 - (b) when describing its actions, the SME shall consider: the list of key actions taken in the reporting year and planned for the future, the scope of the key actions (i.e., coverage in terms of activities, value chain geographies and, where applicable, affected stakeholder groups); the time horizon under which the SME intends to complete each key action. In particular, if material, it shall disclose the actions taken in the reporting period to improve its energy efficiency and to lower related carbon emissions and the related possible implications in terms of risks and opportunities; and
 - (c) when describing on targets, the SME shall consider what is achieved so far.

Metrics

9 Environment

Disclosure Requirement 8 – Energy and carbon emissions (CO₂.eq)

52. The SME shall disclose its impacts on the environment through energy usage and carbon emissions and whether it improves energy efficiency, increases the fraction of non-fossil energy consumption and decreases its carbon emissions.
53. The disclosure shall include:
- (a) total energy consumption in MW, with a breakdown of:⁴
 - (i) fossil fuels; and
 - (ii) electricity, as expressed in utility billings (with the breakdown between renewable and non-renewable sources).⁵
54. The changes in total energy consumption expressed in MWh referred to the previous reporting period:
- (a) scope 1 and scope 2 GHG emissions, reported in tons of CO₂ equivalent (tCO₂.eq); and⁶
 - (b) the changes in scope 1 and scope 2 emissions compared with the previous reporting period.

Disclosure Requirement 9 – Pollution of air, water and soil

55. The SME shall disclose the pollutant *emissions* to air, water and soil that it emits in its own operations.
56. SME shall disclose the pollutants it emits to air, water and soil that it is required to report by law to competent authorities (e.g. under the Industrial Emissions Directive and the European Pollutant Release and Transfer Register) or required to report under an Environmental Management System such as EMAS or ISO 14001.

Disclosure Requirement 10 – Biodiversity

57. The SME shall disclose metrics related to its impacts on biodiversity and ecosystems and land use change, if applicable.
58. SME shall disclose the number and area (in hectares) of sites that it owns, that it has leased or that it manages, that are located in or near biodiversity sensitive areas.⁷
59. The SME may disclose metrics related to land-use change such as:
- (a) total use of land;
 - (b) total sealed area;

⁴ Regulation (EU) 2019/2088 (SFDR), indicator #5, Table 1.

⁵ Regulation (EU) 2019/2088 (SFDR), indicator #5, Table 1, Annex 1.

⁶ Regulation (EU) 2019/2088 (SFDR), indicator #1 and #2, Table 1, Annex 1; and Benchmark, Articles 5 (1), 6 and 8 (1).

⁷ Regulation (EU) 2019/2088 (SFDR), indicator #7, Table 1.

- (c) total nature-oriented area on site; and
- (d) total nature-oriented area off site.

Disclosure Requirement 11 – Resource use, circular economy, water consumption and waste management

- 60. The SME shall disclose how it manages resource use, application of circular economy principles, water consumption and waste management practices.
- 61. The disclosure shall include:
 - (a) a description of recycled goods and materials bought and sold (expressed in the metric system units commonly used by the SME for the specific type of product/good/material);
 - (b) rates of recyclable content in the SME's products and their packaging;
 - (c) water consumption or water use in cubic meters;
 - (d) a description of the waste generation (expressed in the metric system units commonly used by the SME for the specific type of product/good/material); and
 - (e) a description of the waste diverted to recycle or reuse (expressed in metric system units commonly used by the SME for the specific type of waste).

10 Social

Disclosure Requirement 12 – Workforce – General or workforce characteristics

- 62. The SME shall disclose information about its workforce.
- 63. The disclosure shall include in full-time equivalents⁸ or head count:
 - (a) number of employees by region;
 - (b) number of temporary and permanent employees;
 - (c) breakdowns by gender;
 - (d) (Please, refer to the Questionnaire, for additional proposals.)

Disclosure Requirement 13 – Workforce - Health and safety

- 64. The SME shall disclose information about its measures on health and safety.
- 65. The disclosure shall include:
 - (a) working days lost due to different reasons (absenteeism, illness, and similar); and
 - (b) work-related injuries occurred (including the “in itinerary” accidents also known as commuting accidents).⁹

⁸ The calculation of full-time equivalent (FTE) is an employee's scheduled hours divided by the employer's hours for a full-time workweek.

⁹ Benchmark Regulation (EU) 2019/1816, indicator “Weighted average ratio of accidents, injuries, fatalities”, section 1 and 2 of Annex 2.

Disclosure Requirement 14 – Workforce – Remuneration, work-life balance and opportunities for development

66. The SME shall disclose information about its measures on equal remuneration, work-life balance and people development.
67. The disclosure shall include:
- (c) the percentage gap in pay between its female and male employees. The pay gap is defined as the difference of average pay levels between female and male employees, expressed as a percentage of the average pay level of male employees¹⁰;
 - (d) the percentage of employees:
 - (i) entitled to take family-related leave, with a breakdown by gender; and
 - (ii) that took family-related leave, with a breakdown by gender.
Family-related leave includes maternity, paternity, parental, and carers' leave; and
 - (e) average number of training hours per employee and by gender related to the development of skills and competences, either through formal or informal forms of capacity building.

11 Business conduct

Disclosure Requirement 15 – Responsible Business Practices

68. The SME shall disclose information about its system to prevent and detect, investigate, and respond to allegations or incidents relating to corruption and bribery.
69. The disclosure shall include:
- (a) whether it has assessed the effectiveness of actions taken to address breaches in procedures and standards (including for instance a code of ethics) of anti-corruption and anti-bribery; and
 - (b) the number of convictions and the amount of fines for violation of anti-corruption and anti-bribery laws¹¹.

¹⁰ Regulation (EU) 2019/2088 (SFDR) indicator #12 in Table 1 of Annex 1 of the related Delegated Regulation and benchmark Regulation (EU) 2020/1816, indicator “Weighted average gender pay gap” in section 1 and 2 of Annex 2.

¹¹ Benchmark Regulation (EU) 2020/1816 as set out by indicator “Numbers of convictions and amount of fines for violations of anti-corruption and anti-bribery laws” in section 1 and 2 of Annex 2.

Transitional provision

12 Comparative information

70. The SME applying this [draft] Standard for the first-time, may defer the presentation of comparative information as required by paragraph 26 by one year, to ease the first-time application.

Appendix A: Defined terms

This appendix is integral part of the [draft] Standard.

Defined term	Definition
Actions	Actions refer to (i) actions that are undertaken to ensure that the SME delivers against targets set and through which the SME seeks to address material topics and subtopics; and (ii) decisions to support these with financial, human or technological resources.
Comparability	Sustainability information is comparable when it can be compared with information provided by the SME in previous periods and, can be compared with information provided by other undertakings, in particular those with similar activities or operating within the same industry. A point of reference for comparison can be a target, a baseline, an industry benchmark, comparable information from either other undertakings or from an internationally recognised organisation, etc.
Direct GHG emissions (Scope 1)	GHG emissions from sources that are owned or controlled by the undertaking.
Double materiality	Has two dimensions: impact materiality and financial materiality. A sustainability matter meets therefore the criteria of double materiality if it is material from either the impact perspective or the financial perspective or both perspectives.
Faithful representation	To be useful, the information must not only represent relevant phenomena, it must also faithfully represent the substance of the phenomena that it purports to represent. Faithful representation requires information to be (i) complete, (ii) neutral and (iii) free from error.
Financial materiality	A sustainability matter is material from a financial perspective if it triggers or may trigger material financial effects on the undertaking.
Greenhouse Gases GHG	are those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of terrestrial radiation emitted by the Earth's surface, the atmosphere itself and by clouds. This property causes the greenhouse effect.
Impact materiality	A sustainability matter is material from an impact perspective when it pertains to the undertaking's actual or potential, positive or negative on people or the environment over the short-, medium- or long-term. A material sustainability matter from an impact perspective includes impacts caused or contributed to by the SME and impacts which are directly linked to the undertaking's operations, products, and services through its business relationships.
Indirect GHG emissions (Scope 2)	are a consequence of the operations of the SME but occur at sources owned or controlled by another company. Scope 2 GHG emissions are indirect emissions from the generation of purchased or acquired electricity, steam and heat, or cooling consumed by the undertaking.
Indirect GHG emissions (Scope 3)	are a consequence of the operations of the SME but occur at sources owned or controlled by another company. Scope 3 GHG emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 GHG emissions are considered as estimated emissions in comparison with Scope 1 and 2 as their

Defined term	Definition
	<p>calculation is based on a combination of methods and primary and secondary data ranging from precise figures (supplier-specific or sites-specific methods) to extrapolated figures (average-data or spend-based methods).</p>
<p>Listed SMEs</p>	
<p>Materiality</p>	<p>A sustainability matter is “material” for the SME when it meets the criteria defined for impact materiality or financial materiality or both.</p>
<p>Policy</p>	<p>A set or framework of general objectives and management principles that the SME uses for decision-making. A policy implements the undertaking’s strategy or management decisions related to a material sustainability matter. Each policy is under the responsibility of defined person(s), specifies its perimeter of application, and includes one or more objectives (linked when applicable to measurable targets). A policy is implemented through actions or action plans.</p> <p>SMEs and undertakings with less resources may have few (or no) policies formalised in written documents, but this does not necessarily mean they do not have policies.</p> <p>If the SME has not yet formalised a policy but has implemented actions or defined targets through which the SME seeks to address material sustainability topics and subtopics, it may disclose them.</p>
<p>Relevance</p>	<p>Sustainability information is relevant when it may make a difference in the decisions of users under a double materiality approach (see chapter 3 of this [draft] Standard). Information may make a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Sustainability information may impact decisions of users if it has predictive value, confirmatory value or both.</p> <p>Information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Sustainability information does not need to be a prediction or forecast to have predictive value, but rather has predictive value if employed by users in making their own predictions. Information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.</p> <p>Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, as assessed in the context of the undertaking’s sustainability reporting (see chapter 3 of this [draft] Standard).</p>
<p>SME</p>	<p>Micro- Small- and Medium-Sized undertakings as defined by Article 3 of Directive 2013/34/EU excluding those whose transferable securities governed by the law of a Member State are admitted to trading on a regulated market of any Member State as defined by Article 2 of Directive 2013/34:</p> <ol style="list-style-type: none"> 1. Micro undertakings shall be undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria: <ul style="list-style-type: none"> (a) balance sheet total: EUR 350 000; (b) net turnover: EUR 700 000; (c) average number of employees during the financial year: 10. 2. Small undertakings shall be undertakings which on their balance

Defined term	Definition
	<p>sheet dates do not exceed the limits of at least two of the three following criteria:</p> <ul style="list-style-type: none"> (a) balance sheet total: EUR 4 000 000; (b) net turnover: EUR 8 000 000; (c) average number of employees during the financial year: 50. <p>Member States may define thresholds exceeding the thresholds in points (a) and (b) of the first subparagraph. However, the thresholds shall not exceed EUR 6 000 000 for the balance sheet total and EUR 12 000 000 for the net turnover.</p> <p>3. Medium-sized undertakings shall be undertakings which are not micro-undertakings or small undertakings and which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:</p> <ul style="list-style-type: none"> (a) balance sheet total: EUR 20 000 000; (b) net turnover: EUR 40 000 000; (c) average number of employees during the financial year: 250. <p>Those criteria might change over time based on regulation of the European Union.</p> <p>https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32003H0361</p> <p>An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity. (source: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32003H0361)</p>
Stakeholder	<p>Stakeholders are those who can affect or be affected by the undertaking.</p> <p>There are two main groups of stakeholders:</p> <ul style="list-style-type: none"> (a) affected stakeholders: individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking’s activities and its direct and indirect business relationships in the value chain; and (b) users of sustainability reporting: primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors including asset managers, credit institutions, insurance undertakings); as well as other users, including the undertaking’s business partners, trade unions and social partners, civil society organisations and non-governmental organisations. <p>Some, but not all, stakeholders may belong to the two groups.</p>
Sustainability	<p>refers to Sustainable development. It was defined in the World Commission on Environment and Development’s 1987 Brundtland report ‘Our Common Future’ as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’.</p>
Targets	<p>Measurable, outcome-oriented and time-bound goals that the SME aims to achieve in relation to material sustainability topics and</p>

Defined term	Definition
	subtopics. They may be set voluntarily by the SME or derive from legal requirements on the undertaking.
Understandability	Sustainability information is understandable when it is clear, and concise. Understandable information enables any reasonable knowledgeable user to readily comprehend the information being communicated.
Verifiability	Sustainability information is verifiable if it is possible to corroborate either such information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Sustainability information shall be provided in a way that enhances their verifiability.

Appendix B: List of sustainability matters used for materiality assessment

This appendix is an integral part of this [draft] Standard. The compilation of sustainability topics and related sub-topics and sub-sub-topic shall be used as a basis to determine the material matters to be reported.

Sustainability matters covered in [draft] topical ESRS		
Topic	Sustainability matter: Sub-topic	Sustainability matter: sub-sub topic
Climate change	<ul style="list-style-type: none"> - Climate change adaptation - Climate change mitigation - Energy 	
Pollution	<ul style="list-style-type: none"> - Pollution of air - Pollution of water - Pollution of soil - Pollution of living organisms and food resources - Substances of concern - Substances of very high concern 	
Water and marine resources	<ul style="list-style-type: none"> - Water - Marine resources 	<ul style="list-style-type: none"> - Water consumption - Water withdrawals - Water discharges - Water discharges in the oceans - Extraction and use of marine resources
Biodiversity and ecosystems	<ul style="list-style-type: none"> - Direct impact drivers of biodiversity loss 	<ul style="list-style-type: none"> - Climate Change - Land-use change, fresh water-use change and sea-use change - Direct exploitation - Invasive alien species - Pollution - Others
	<ul style="list-style-type: none"> - Impacts on the state of species 	<ul style="list-style-type: none"> - Examples: - Species population size - Species global extinction risk
	<ul style="list-style-type: none"> - Impacts on the extent and condition of ecosystems 	<ul style="list-style-type: none"> - Examples: - Land degradation - Desertification - Soil sealing
	<ul style="list-style-type: none"> - Impacts and dependencies on ecosystem services 	
Circular economy	<ul style="list-style-type: none"> - Resources inflows, including resource use - Resource outflows related to products and services - Waste 	
Own workforce	<ul style="list-style-type: none"> - Working conditions 	<ul style="list-style-type: none"> - Secure employment - Working time - Adequate wages - Social dialogue - Freedom of association, the existence of works councils and the information,

Sustainability matters covered in [draft] topical ESRS		
Topic	Sustainability matter: Sub-topic	Sustainability matter: sub-sub topic
		<ul style="list-style-type: none"> consultation and participation rights of workers – Collective bargaining, including rate of workers covered by collective agreements – Work-life balance – Health and safety
	– Equal treatment and opportunities for all	<ul style="list-style-type: none"> – Gender equality and equal pay for work of equal value – Training and skills development – Employment and inclusion of persons with disabilities – Measures against violence and harassment in the workplace – Diversity
	– Other work-related rights	<ul style="list-style-type: none"> – Child labour – Forced labour – Adequate housing – Privacy
Workers in the value chain	– Working conditions	<ul style="list-style-type: none"> – Secure employment – Working time – Adequate wages – Social dialogue – Freedom of association, including the existence of work councils – Collective bargaining – Work-life balance – Health and safety
	– Equal treatment and opportunities for all	<ul style="list-style-type: none"> – Gender equality and equal pay for work of equal value – Training and skills development – The employment and inclusion of persons with disabilities – Measures against violence and harassment in the workplace – Diversity
	– Other work-related rights	<ul style="list-style-type: none"> – Child labour – Forced labour – Adequate housing – Water and sanitation – Privacy
Affected communities	– Communities’ economic, social and cultural rights	<ul style="list-style-type: none"> – Adequate housing – Adequate food – Water and sanitation – Land-related impacts – Security-related impacts
	– Communities’ civil and political rights	<ul style="list-style-type: none"> – Freedom of expression – Freedom of assembly

Sustainability matters covered in [draft] topical ESRS		
Topic	Sustainability matter: Sub-topic	Sustainability matter: sub-sub topic
		<ul style="list-style-type: none"> - Impacts on human rights defenders
	<ul style="list-style-type: none"> - Rights of indigenous communities 	<ul style="list-style-type: none"> - Free, prior and informed consent - Self-determination - Cultural rights
Consumers and end-users	<ul style="list-style-type: none"> - Information-related impacts for consumers and/or end-users 	<ul style="list-style-type: none"> - Privacy - Freedom of expression - Access to (quality) information
	<ul style="list-style-type: none"> - Personal safety of consumers and/or end-users 	<ul style="list-style-type: none"> - Health and safety - Security of a person - Protection of children
	<ul style="list-style-type: none"> - Social inclusion of consumers and/or end-users 	<ul style="list-style-type: none"> - Non-discrimination - Access to products and services - Responsible marketing practices
Business conduct	<ul style="list-style-type: none"> - Corporate culture - Protection of whistle-blowers - Animal welfare - Political engagement - Management of relationships with suppliers including payment practices 	
	<ul style="list-style-type: none"> - Corruption and bribery 	<ul style="list-style-type: none"> - Prevention and detection including training - Incidents