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[Draft] LSME ESRS V3 and VSME ESRS V1 working papers Cover Note

Objective

1. The purpose of this session is to discuss with the SR TEG the v3 LSME ESRS working papers, the v1 VSME ESRS working paper and the building block approach, before launching the internal SR TEG and SRB written feedback period.

Key discussion points for the session

LSME (agenda session 03)

2. Validation of the adjustments due to “non-consolidation “in LSME, incorporated in v.3 LSME ESRS working paper with text highlighted in yellow. This is reflected in Section 1 and Topical Section- Environment 4 (GHG emissions scope 3, consolidation)
3. Validation of adjustments in Section 2. This Section has been split in two: Section 2- General Disclosures and Section 3 – Policies, Actions, Targets, Engagement and Remediation- to reflect centralization and mandatory versus materiality assessment.



4. Address specific question on Section 5- Social disclosures, that could not be discussed in past section to validate the drafting. (text highlighted in green)
5. Validation of the changes stemming from the EC draft Delegated Act ESRS set1 with focus on the disclosures that have been made voluntary. Those are:
 - i. In Section 4 environment (new numbering) and Section 3 centralised disclosure on policies, actions and targets (for environment):
 1. E2-E5: classification of each action according to a layer of the mitigation hierarchy;
 2. E4: metrics on invasive alien species, impact drivers of land-use change, and ecosystem;
 3. E4: land-use based on life-cycle assessment
 - ii. In Section 5 social (new numbering):
 1. S1 Breakdown of number of non-employees by category and type of work performed;
 2. Whether paid adequate wage;
 3. Social protection coverage, employees not covered by collective bargaining agreements;
 4. Breakdown by employee category regarding participation in training.
6. According to SR TEG orientation on 21 June, the secretariat has identified the DRs or datapoints with value chain dimension. Those were kept as “ may” in LSME v.3. The other DRs or datapoints that do not have value chain dimension were deleted from LSME v.3. An overview of what was kept as voluntary and what was deleted, is provide in Annex1 at the bottom of this cover page for SR TEG validation.
7. Orientation on “phase-in” for undertakings that do not use the 2 years “full opt-out “option granted by the CSRD (small and medium listed companies or small and non-complex banks and captives, provided that they are listed) for the period before the financial year 1st January 2028. The phase-ins would be the same as the ones proposed in the EC DA set1 ESRS. Please refer to Appendix 2 for a review of the list of information for the phase-in in LSME according to par. 17 ESRS-2 in set1 (EC DA June 2023). For the other requirements subject to phase-in, as defined in Appendix C of ESRS-1 in set1 (EC DA June 2023), LSME will apply the same rule, provided that the disclosure requirement is included in [draft] LSME ESRS.
8. Orientation on the Appendix “Structure of Sustainability Statement” and “Example of structure of sustainability statement” (in set1 ESRS1): how they shall be adjusted or simplified in LSME ESRS. To note that CSRD art 29c requires the standards to specify, to the extent possible, the structure in which that information shall be reported.



9. Orientation on new proposed Appendix C for section 2 to clarify the DRs that are mandatory via a table (see Appendix 3 of this cover note)

VSME (agenda session 04)

10. Validation of the VSME v1 working paper that incorporates:
 - a. The **general requirements** part that has been added according to the building block scheme to match the general requirements that apply in the ESRS modular system.
 - b. The text of **general disclosures** already validated by SR TEG on 19 June as part of the building blocks approach.
 - c. The **key metrics** part that integrates the ex-PTF cluster 8 proposal with some adjustments to align with the ESRS modules and other existing voluntary initiatives that have been mapped (i.e. Nordic Sustainability reporting standards for SMEs, German Sustainability Code, CDP guide for SMEs etcetera).
11. According to SRB's indication, VSME v1 has been developed considering both existing PTF cluster 8 proposal and LSME v3, in terms of additionality, proportionality and building block approach (see also par. 14).
12. Specific questions are put to SR TEG regarding the followings:
 - a. The VSME v1 includes an option to report additional entity specific sustainability information. This was proposed by ex-PTF cluster 8. Since it is an option the secretariat would suggest to maintain it. Is this supported by SR TEG?
 - b. In line with ex-PTF cluster 8 VSME proposal, VSME v1 includes optional value chain dimension (also based on ex-PTF cluster 8) and the possibility to consolidate reporting: is this supported by SR TEG?
 - c. In line with feedback from LSME community and other stakeholders, the VSME v1 suggests that micro-enterprises may limit its sustainability report to step1, key metric dataset. Vice-versa for medium enterprises it is suggested to use the next level LSME ESRS. This is to ensure that the tool is modular and proportionate with dynamic steps in the voluntary application. It is to note however that LSME is only individual reporting. Should the VSME1 rather suggest for medium size undertakings to use VSME including the additional EU datapoint module? Being in a voluntary system it might however also be considered superfluous to make any recommendation at all. What are views of SR TEG members?
13. Orientation on the "additional EU datapoint-module" for VSME ESRS is sought. The module is preliminary presented to allow for timely discussion, but is still work in progress. Please refer to Agenda Paper 04-03 as basis for discussion. In particular, the secretariat would like to validate the approach that only SFDR Table1 PAI, Benchmark Regulation and ESG Pillar 3 CRR datapoints are included in a simplified manner (questions).



14. With reference to Agenda Paper 04-04, Input Paper basis for conclusion VSME: SR TEG views on whether the paper covers the main methodological aspects.

Building Blocks (agenda session 04)

15. With reference to Agenda Paper 04-05 “Building Block Approach LSME/VSME” a revised version is provided that also includes the metrical part that was not included in previous draft. Validation of the revised document is sought. As a reminder the building blocks consists of :

- VSME 1st step: Metrics data-set
- VSME 2nd step: Metrics data-set + narrative information on general disclosures and PTA (VSME common building block across ESRS)
- VSME 3rd step: Metrics data-set + narrative information on general disclosures and PTA + EU datapoints module
- LSME = VSME 3rd step + datapoints due to value chain cap (and adjustments due to the consolidated view in VSME versus individual view in LSME)
- ESRS Set 1 (EC DA June 2023)

Agenda Papers

16. In addition to this cover note, agenda papers for this session are:

- a. Agenda paper 03-02 – LSME V3 Section 1
- b. Agenda paper 03-03 – LSME V3 Section 2 and 3
- c. Agenda paper 03-04 – LSME V3 Section 4 (E)
- d. Agenda paper 03-05 – LSME V3 Section 5 (S)
- e. Agenda paper 03-06 – LSME V3 Section 5 (G)
- f. Agenda paper 04-02 – VSME V1
- g. Agenda Paper 04-03 – VSME additional EU datapoints module (work in progress)
- h. Agenda Paper 04-04 – Input Paper basis for conclusions VSME
- i. Agenda Paper 04-05 – Building Blocks Approach LSME VSME revised



Questions to SR TEG

LSME

17. Do you agree with changes regarding consolidation (in yellow) in LSME v3 Section 1 and Section 4 - Environment (GHG scope 3 emissions?)
18. Do you agree with following changes in Section 5- Social LSME v3:
 - a. Disclosure Requirement S1-1 – Characteristics of the undertaking’s employees. When asking for a cross-reference of the total number of employees to the most representative number in the financial statements, we added “where applicable”. (Para. 9 d);
 - b. We brought back the Disclosure Requirement on Diversity metrics (merged with persons with disabilities, and simplified): only gender distribution and percentage of persons with disabilities; distribution by age group was included in the AR. (This change was suggested by the French standard setter)
19. Do you agree with the secretariat analysis to keep the DRs and datapoints made voluntary in DRs in EC DA set 1 ESRS when they had a value chain dimension and delete the others according to the overview provided in Annex 1 at the bottom of this cover page?
20. Do you agree with the proposed phase-ins in line with EC DA set 1 ESRS introduced in LSME v3 Section 2?
21. What is your view on the Appendixes regarding “Structure of Sustainability Statement” and “Example of structure of sustainability statement” : should they be adjusted or simplified in LSME ESRS? To note that CSRD art 29c requires the standards to specify, to the extent possible, the structure in which that information shall be reported.
- 22.

VSME

23. Do you agree with the proposed general requirements, general disclosures and metrics in VSME v1? do you have specific proposals for changes?
24. Do you agree with the approach outlined in par.8 regarding, option for entity specific, value chain dimension, consolidation and specific approach for micro-enterprises enterprises in VSME? For medium enterprise would you recommend a specific approach and if so, which?
25. Do you agree with the initial approach on the VSME additional EU data points module?
26. Do you support the structure of the input paper basis for conclusions VSME? Are there missing aspects?



Appendix 1 “Overview of DRs and datapoints kept as voluntary (value chain) or deleted due to new voluntary approach in EC DA set1 ESRs”



Disclosure requirements in E1, E2, E3, E4 and E5 - EC draft			LSME Section 3 (Policies, Actions, Targets, Engagement and Remediation - new numbering)		Impacts VC cap	Status
DR in Delegated Act (June 2023)	par.	Datapoint	[draft] LSME V3	Text [draft] LSME V3		
Disclosure Requirement E2-2 – Actions and resources related to pollution	19	In addition to ESRS 2 MDR-A, the undertaking <u>may</u> specify to which layer in the following mitigation hierarchy an action and resources can be allocated: <ul style="list-style-type: none"> a) avoid pollution including any phase out of materials or compounds that have a negative impact (prevention of pollution at source); b) reduce pollution, including: any phase-out of materials or compounds; meeting enforcement requirements such as Best Available Techniques (BAT) requirements; or meeting the Do No Significant Harm criteria for pollution prevention and control according to the EU Taxonomy Regulation and its Delegated Acts (minimisation of pollution); and c) restore, regenerate and transform ecosystems where pollution has occurred (control of the impacts both from regular activities and incidents). 	Was a “SHALL” in V2.3 and SET1, Included as may after EC's draft, highlighted in red	Deleted in LSME V3	Deleted as it does not affect the Value chain cap	Done
Disclosure Requirement E3-2 – Actions and resources related to water and marine resources	18	18. In addition to ESRS 2 MDR-A, the undertaking may specify to which layer in the mitigation hierarchy an action and resources can be allocated to: <ul style="list-style-type: none"> a) avoid the use of water and marine resources; b) reduce the use of water and marine resources such as through efficiency measures; c) reclaiming and reuse of water; or d) restoration and regeneration of aquatic ecosystem and water bodies 	Was a “SHALL” in V2.3 and SET1, Included as may after EC's draft, highlighted in red	Deleted in LSME V3	Deleted as it does not affect the Value chain cap	Done
Disclosure Requirement E2-3 – Targets related to pollution	24	In addition to [draft] ESRS 2 DC-T, the undertaking shall specify whether (local) ecological thresholds (e.g., the biosphere integrity, stratospheric ozone-depletion, atmospheric aerosol loading, soil depletion, ocean acidification) and entity-specific allocations were taken into consideration when setting targets. If so, the undertaking shall specify:	Was a “SHALL” in V2.3 and SET1, Included as may after EC's draft, highlighted in red	Deleted in LSME V3	Deleted as it does not affect the Value chain cap	Done



Disclosure requirements in E1, E2, E3, E4 and E5 - EC draft			LSME Section 3 (Policies, Actions, Targets, Engagement and Remediation - new numbering)		Impacts VC cap	Status
DR in Delegated Act (June 2023)	par.	Datapoint	[draft] LSME V3	Text [draft] LSME V3		
		a) the ecological thresholds identified, and the methodology used to identify such thresholds; b) whether or not the thresholds are entity-specific and if so, how they were determined; and c) how responsibility for respecting identified ecological thresholds is allocated in the undertaking.				



Disclosure requirements in E4 - EC draft			LSME Section 4 (Environment – new numbering)		Impacts VC cap	Status
DR in Delegated Act (June 2023)	par.	Datapoint	[draft] LSME V3	Text [draft] LSME V3		
DR E4-5 Impact metrics related to biodiversity and ecosystems change	35	If the undertaking has identified material impacts with regards to land-use change, or impacts on the extent and condition of ecosystems, <u>it may</u> also disclose their land-use based on a Life Cycle Assessment.	Included as may after EC's draft, highlighted in red	51. If the undertaking has identified material impacts with regards to land-use change, or impacts on the extent and condition of ecosystems, <u>it may</u> also disclose their land-use based on a Life Cycle Assessment.	Keep as it has an impact on Value chain cap	Done
DR E4-5 Impact metrics related to biodiversity and ecosystems change	37	<p>If the undertaking has concluded that it directly contributes to the impact drivers of land-use change, freshwater-use change and/ or sea-use change, the undertaking shall report relevant metrics. The undertaking <u>may disclose</u> metrics that measure:</p> <ul style="list-style-type: none"> a) the conversion over time (e.g., one or five years) of land cover (e.g., deforestation or mining); b) changes over time (e.g., one or five years) in the management of the ecosystem (e.g., through the intensification of agricultural management, or the application of better management practices or forestry harvesting); c) changes in the spatial configuration of the landscape (e.g., fragmentation of habitats, changes in ecosystem connectivity); d) changes in ecosystem structural connectivity (e.g., habitat permeability based on physical features and arrangements of habitat patches); and e) the functional connectivity (e.g., how well genes, gametes, propagules or individuals move through land, freshwater and seascape). 	Included as may after EC's draft, highlighted in red	<p>53. If the undertaking has concluded that it directly contributes to the impact drivers of land-use change, freshwater-use change and/ or sea-use change, the undertaking shall report relevant metrics. The undertaking <u>may disclose</u> metrics that measure:</p> <ul style="list-style-type: none"> a) the conversion over time (e.g., one or five years) of land cover (e.g., deforestation or mining); b) changes over time (e.g., one or five years) in the management of the ecosystem (e.g., through the intensification of agricultural management, or the application of better management practices or forestry harvesting); c) changes in the spatial configuration of the landscape (e.g., fragmentation of habitats, changes in ecosystem connectivity); d) changes in ecosystem structural connectivity (e.g., habitat permeability based on physical features and arrangements of habitat patches); and e) the functional connectivity (e.g., how well genes, gametes, propagules or 	Keep as it has an impact on Value chain cap (land use/LCA)	Done



				individuals move through land, freshwater and seascape).		
DR E4-5 Impact metrics related to biodiversity and ecosystems change	39	<p>If the undertaking identified material impacts related to the state of species, the undertaking may report metrics it considers relevant. The undertaking may:</p> <ul style="list-style-type: none"> a) consider population size, range within specific ecosystems as well as extinction risk; b) include one or more indicators when disclosing information on species at global extinction risk such as: <ul style="list-style-type: none"> i. the threat status of species and how activities/pressures may affect the threat status; or ii. change in the relevant habitat for a threatened species as a proxy for the undertakings impact on the local population’s extinction risk. 	Included as may after EC’s draft, highlighted in red	<p>If the undertaking identified material impacts related to the state of species, the undertaking may report metrics it considers relevant. The undertaking may:</p> <ul style="list-style-type: none"> a) consider population size, range within specific ecosystems as well as extinction risk; b) include one or more indicators when disclosing information on species at global extinction risk such as: <ul style="list-style-type: none"> i. the threat status of species and how activities/pressures may affect the threat status; or ii. change in the relevant habitat for a threatened species as a proxy for the undertakings impact on the local population’s extinction risk. 	Deleted as it does not affect the Value chain cap	Done
Voluntary datapoints in S1 - EC draft			LSME Section 5 (Social – new numbering)			
DR in Delegated Act (June 2023)	par.	Datapoint	[draft] LSME V3	Text [draft] LSME V3	Impacts VC cap	Status
DS1-6 Characteristics of the undertaking's employees	52	<p>The undertaking <u>may</u> disclose by head count or full time equivalent (FTE) the following information:</p> <ul style="list-style-type: none"> (a) full-time employees, and breakdowns by gender and by region; and (b) part-time employees, and breakdowns by gender and by region. 	Included as may, highlighted in pink	<p>10. An undertaking <u>may</u> disclose by head count or full time equivalent (FTE) the following information:</p> <ul style="list-style-type: none"> (a) full-time employees, and breakdown by gender; and 	<p>DELETE REGION BREAKDOWN</p> <p>KEEP rest (GENDER)</p>	done



				(b)part-time employees, and breakdown by gender.		
DS1-7 Characteristics of non-employees in the undertaking's own workforce	56	For the information specified in point (a) of paragraph 55, the undertaking <u>may</u> disclose the most common types of non-employees... and their relationship with the undertaking	Included as may after EC's draft, highlighted in red	Deleted in LSME V3	DELETE	Done (not possible to see in tracked changes as it was a new paragraph)
DS1-8 Collective bargaining coverage and social dialogue	61	For employees not covered by collective bargaining agreements, the undertaking <u>may</u> disclose whether it determines their working conditions and terms of unemployment ...	Included as may after EC's draft, highlighted in red	Deleted in LSME V3	DELETE	done
DS1-8 Collective bargaining coverage and social dialogue	62	The undertaking <u>may</u> disclose the extent to which the working conditions and terms of employment of non-employees in its own workforce are determined or influenced by collective bargaining agreements ...	Included as may after EC's draft, highlighted in red	Deleted in LSME V3	DELETE	done
DS1-10 Adequate wages	71	The undertaking <u>may</u> disclose the information specified in this disclosure requirement with regard to non-employees in this workforce.	Included as may after EC's draft, highlighted in red	Deleted in LSME V3	DELETE	Done (not possible to see in tracked changes as it was a new paragraph)
DS1-16 Remuneration metrics (pay gap and total remuneration)	98	The undertaking <u>may</u> disclose a breakdown of the gender pay gap as defined in paragraph 97 (a) by employee category and/or by country /segment. The undertaking <u>may</u> also disclose the gender pay gap between employees by categories of employees broken down by ordinary basic salary and compensatory or variable component.	Included as may, highlighted in pink	36. The undertaking may disclose a breakdown of the gender pay gap as defined in paragraph 35 a) by employee category and/or by country/segment. The undertaking may also disclose the gender pay gap between employees by categories of employees broken down by ordinary basic salary and complementary or variable components.	KEEP for contextual reasons	-



	99	In relation to paragraph 97 (b), the undertaking <u>may</u> report this figure adjusted for purchasing power differences ...	Included as may, highlighted in pink	37. In relation to paragraph 35 (b), the undertaking may report this figure adjusted for purchasing power differences between countries, in which case it shall report the methodology used for the calculation.	KEEP for contextual reasons	-
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Appendix 2: List of information on phase-in

Topic	LSME Sections	Phase-in or effective date (incl. the first year)
Biodiversity	Section 2 and Section 3	The undertaking may omit the related information for the <u>first two years</u> of preparation of its sustainability statement.
Own workforce	Section 2 and Section 4	The undertaking may omit the related information for the <u>first year</u> of preparation of its sustainability statement.
Workers in the value chain	Section 2 and Section 4	The undertaking may omit the related information for the <u>first two years</u> of preparation of its sustainability statement.
Affected communities	Section 2 and Section 4	The undertaking may omit the related information for the <u>first two years</u> of preparation of its sustainability statement.
Consumers and end-users	Section 2 and Section 4	The undertaking may omit the related information for the <u>first two years</u> of preparation of its sustainability statement.



Appendix 3: List of Disclosure/Application Requirements in Section 2

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

