

This paper has been prepared by the EFRAG Secretariat for discussion at EFRAG SR TEG. 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.

Exposure Draft

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARD

LSME ESRS – SECTION 6 BUSINESS CONDUCT

DISCLAIMER

Section 6 *Business conduct* of this [Draft] ESRS is set out in paragraphs XX and Appendix A: *Application Requirements*. Appendix A has the same authority as the main body of this section. Each Disclosure Requirement is stated in a bold paragraph, followed by a paragraph that illustrates the objective of the disclosures. This section also uses terms defined in other sections and should be read in the context of its objective.

CONTENT AND STATUS OF THIS DRAFT

This draft has to be read in conjunction with the Agenda Papers on LSME discussed in SR TEG and SRB meeting in January, February, March, and April 2023.

This draft has been developed as a markup from [draft] ESRS G1 (November 2022).

Parts in grey are modified based on the new EC DA ESRS set1 (July 2023).

Parts in green are implemented changes that were proposed by the SR TEG / SRB feedback. Please refer in addition to the “track changes” version of this document for the overview of the changes adopted from the SR TEG / SRB feedback.

To reflect the principle of proportionality, the following key simplifications have been implemented in this document (on the basis of the SR TEG discussions/ approach presented by the EFRAG Secretariat at previous meetings):

- The text of SET 1 standards has been integrally considered and amended where appropriate, so that LSME will be a standalone document.
- EFRAG will consult on the applicability of each Sector specific ESRS to LSMEs, as part of the consultation on that ESRS. A question on the general approach to sector standards in LSME will also be included in LSME Exposure Draft. Pending the definition of such an approach, in this draft the references to sector-specific ESRS has been eliminated.
- The reporting covers material impacts and risks. Opportunities are voluntary.
- The undertaking shall disclose negative impacts. Positive impacts are voluntary.
- The approach to entity-specific disclosure is unchanged from Set 1 ('shall').
- Targets are disclosed only when they are in place, without the requirement to justify when they are not in place (differently from SET 1). Additional details will also be required when targets are in place, to ensure a minimum level of discipline (inspired by DC-T but significantly simplified) on the definition of targets.
- The working paper for Section 5 has been defined according to:
 - the decision tree presented previously to the SR TEG, including only DRs that are defined in SFDR PAIs and Benchmark Regulations;
 - CSRD Art. 29 b (2) provisions. DRs has been included for "protection of whistle-blowers and animal welfare", " lobbying activities", "payment practices"
 - SR TEG meeting held on 02 February 2023 (breakout session)
- G1-2 and G1-6 defined in ESRS G1 has been simplified and merged in G1-1 of this draft section.
- G1-3 and G1-4 defined in ESRS G1 has been simplified and merged in G1-2 of this draft section.

Following the SR TEG meeting on 18 September, the following agreed changes have been included:

- Management of relationship with suppliers: deleted the part about impacts and supply chain and redrafted management of supply chain
- Anti-corruption and Anti-bribery: Added “if any” on actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery.
- Political influence and lobbying activities: Added “if any” on the activities and commitments related to exerting its political influence.

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

Table of Contents

Table of Contents	4
Objective	5
Disclosure Requirements	5
Disclosure Requirement G1-1 – Management of relationships with suppliers	5
Disclosure Requirement G1-2 –Anti-corruption and anti-bribery	5
Metrics	6
Disclosure Requirement G1-3 – Political influence and lobbying activities	6
Appendix A: Application Requirements	7
Disclosure Requirement G1-1 – Management of relationships with suppliers	7
Disclosure Requirement G1-2 – Anti - corruption and anti - bribery	7

Objective

1. The objective of this section of this [draft] Standard is to specify disclosure requirements which will enable users of the undertaking's sustainability statements to understand the undertaking's strategy and approach, processes and procedures as well as its performance in respect of business conduct.
2. This section focusses on the following matters:
 - (a) anti-corruption and anti-bribery;
 - (b) the management of relationships with suppliers including payment practices, especially with regard to late payment; and;
 - (c) political influence and lobbying activities.
3. The objectives in par. 1 and the metrics disclosure requirements under section 6 G1-1 to G1-3 shall be read in conjunction with Section 2 and 3 of this [draft] ESRS.

Disclosure Requirements

Disclosure Requirement G1-1 – Management of relationships with suppliers

4. **The undertaking shall provide information about the management of its relationships with its suppliers as well as the management of its impacts on its supply chain.**
5. This disclosure requirement should be read in conjunction with Section 2 IR 3, where the undertaking shall state whether it has a supplier code of conduct.
6. The undertaking may disclose information on its purchasing practice / procedure and whether it considers also ESG criteria.
7. The undertaking shall disclose whether it has established a practice / procedure to monitor late payments.

Disclosure Requirement G1-2 – Anti-corruption and anti-bribery

8. **The undertaking shall report whether it has a system in place and describe it if applicable to prevent and detect, investigate, and respond to allegations or incidents relating to corruption and bribery including the related training.**
9. The undertaking shall disclose
 - (a) any actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery¹;
 - (b) the number of convictions and the amount of fines for violation of anti-corruption and anti-bribery laws².

¹ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts set out in indicator #16 of Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments (respectively "Cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery").

² This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts set out in indicator #17 of Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments (respectively "Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws") and benchmark administrators to disclose ESG factors subject to 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.

Metrics***Disclosure Requirement G1-3 – Political influence and lobbying activities***

10. **The undertaking shall disclose whether it has in place activities and commitments related to exerting its political influence, including its lobbying activities related to its material impacts, risks and (opportunities), and describe them if applicable.**
11. The disclosure required by paragraph 10 shall include:
 - (a) if applicable, the representative(s) responsible in the administrative, management and supervisory bodies for the oversight of these activities;
 - (b) for financial or in-kind political contributions:
 - i. the total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking.; and
 - ii. where appropriate, how the monetary value of in-kind political contributions is estimated.
 - (c) the main topics covered by its lobbying activities and the undertaking's main positions on these in brief.

Appendix A: Application Requirements

This appendix is an integral part of the [draft] ESRS G1 *Business conduct*. It supports the application of the disclosure requirements set out in this section and has the same authority as the other parts of the [draft] Standard.

Disclosure Requirement G1-1 – Management of relationships with suppliers

- AR 1. For purposes of this standard, management of relationships with the undertaking’s suppliers may include the following:
- (a) how the undertaking’s practices, including activities to avoid or minimise the impacts of disruptions to its supply chain, support its strategy and risk management;
 - (b) the undertaking’s targets and actions, if any, with regard to communication and management of relationships with suppliers.

Disclosure Requirement G1-2 – Anti - corruption and anti - bribery

- AR 2. Disclosures may include details about the risk assessments and/or mapping as well as monitoring programmes and/or internal control procedures performed by the undertaking to detect corruption and bribery. Such procedures may include training or whistleblowing systems.
- AR 3. The undertaking may present the required information about training on its anti-bribery and corruption policies using the following table:

Anti-corruption and bribery training illustrative example

During the 20XY financial year ABC provided training to its at-risk own workers in terms of its policy (see note x).. Details of its training during the year is as follows:

	Managers	Other employees
Training coverage		
<i>Total</i>	<i>5</i>	<i>50</i>
<i>Total receiving training</i>	<i>3</i>	<i>42</i>
Total hours of training	<i>6</i>	<i>84</i>
Frequency		
<i>How often training is required</i>	<i>Annually</i>	<i>Annually</i>



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