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ESRS LSME ED – SR Board approval

Cover Note

Objective

- 1 The objective of this session for EFRAG SR Board is to continue the discussion held on 13 December 2023 and to approve the ESRS LSME Exposure Draft (ESRS LSME ED, or LSME ED) to be issued for public consultation, subject to editorial changes.
- 2 The SRB discussed the content of LSME ED on 24 October, 29 November and 13 December 2023. The draft approved by EFRAG SR TEG was made available for these SRB meetings.
- 3 Summarised in this cover note are also the topics discussed during the SRB meeting 13 December 2023 and the decisions taken (see Appendix 1 of this cover note).

List of the proposed changes to be discussed

Comment by	Secretariat proposed wording
Luc Vansteenkiste	<p><i>New par. 65 of Section 1</i></p> <p>The undertaking may refer to information contained in the ESRS sustainability statement of an actor in its value chain, assured under the provisions of the CSRD, when such actor publishes mandatory ESRS sustainability statement, if that statement contains the information needed in the preparation of the undertaking’s ESRS sustainability statement. When an actor in the value chain that does not prepare ESRS mandatory sustainability statement but publishes sustainability information according to other standards or frameworks (such as GRI Standards, IFRS Sustainability Disclosure Standards, EMAS), provided that such information is audited.</p> <p><i>In the Basis for Conclusions</i></p> <p>Example: a company transforming chemicals into consumer goods and buying such chemicals from large companies may not have contractual power or technical capacity to verify the impacts triggered by the practices of such companies or their suppliers on topics for which recognized standards or third-party certification may not be widely available, nor to verify the answers they find or receive.</p> <p><i>New AR 18.</i></p> <p>[in relationship with the concept of reasonable effort, par. 63 of Section 1]:</p>

	<p>When the LSME has a large number of actors in its upstream or downstream value chain, it may not be able without unreasonable effort to collect direct data from them, when such data are either indispensable input to the materiality assessment (see para. XX) or information necessary in order to prepare the LSME’s value chain disclosure for ESRS reporting (see para. XX). In this case, the LSME will use proxies or sector data under the provisions of BP 2.</p> <p>Subject to the provisions in the Disclosure Requirements of this [draft] Standard, the LSME is expected to provide explanations of its efforts, if such efforts are in place, (and of the extent of effectiveness of such efforts) to influence the practices of the actors in its upstream and downstream value chain (such as develop products that are maximally recyclable and propose to consumers or end-users) and to contribute to the elaboration of proxies or sector data.</p>
<p>Kristian Koktvedgaard</p>	<p><i>New Application Requirement</i></p> <p>When there is a high number of actors in the value chain, when performing the materiality assessment, the entity is not expected to look at each and every of those individual actors, but may approach the value chain in a more aggregated level, grouping them based on homogeneous characteristics. For example, this could be done by main groups of supplies, based on the characteristics of the business model and based on specific activities, business relationships, geographies or other factors that give rise to heightened risk of adverse impacts and of financial risks. (IRO 1 b i). A more granular approach is expected to be applied in case of a specific sustainability issues are identified – for instance due to size/geography or nature of products/services. In this case, the undertaking is expected to focus on the specific actor(s) involved.</p>
<p>Annina Tanhuanpaa</p>	<p><i>Section 4 – DR E1-2 GHG intensity based on net revenue and E 3-1 Water consumption</i></p> <p>ADD: Small-non-complex-credit-institutions (See Section 1 paragraph 2 b) may replace net revenue with a different financial indicator, until a sectoral standard is established.</p> <p>[NOTE OF THE EFRAG SECRETARIAT – THE SAME ISSUE EXISTS ALSO FOR BANKS THAT APPLY LARGE STANDARDS AND A SIMILAR FLEXIBILITY HAS NOT BEEN INCLUDED IN ESRS SET 1. LEAVING OPEN THE DECISION ABOUT WHICH INDICATOR HAS TO BE USED AS DENOMINATOR MAY ORIGINATE DIVERGENCY IN PRACTICE. POINTING OUT TO A SPECIFIC DENOMINATOR WITHOUT HAVING CONSULTED ON IT MAY BE PROBLEMATIC AND WAS THE REASON WHY IT WAS NOT INCLUDED IN SET 1. THE DECISION WAS TO POSTPONE THIS DECISION TO THE SECTOR STANDARDS].</p> <p><i>Section 1 – Appendix C: Phase-in</i></p> <p>ADD at the end of the table: For small-non-complex-credit-institutions (See Section 1 paragraph 2 b) the threshold of 50 employees is replaced by 750 employees.</p>

Approval of LSME ESRS ED

- 4 EFRAG Secretariat will ask SRB members if they approve the content of ESRS LSME ED on a section-by-section basis. To also note that Secretariat will merge the sections of LSME in one single document.

Questions for EFRAG SR Board

- 5 **Does EFRAG Board approve to issue for public consultation the LSME ED subject to the changes agreed today and subject to editorial changes?**

Next steps

- 6 Secretariat will focus on the following steps:
- (a) finalise the Basis for Conclusions for the LSME ESRS ED – **the plan is to ask for written input at the same time at SR TEG and SRB, as no approval is required for this document;**
 - (b) preparation for the public consultation, particularly the draft questionnaire for LSME ESRS ED;
 - (c) apply potential editorial changes in the LSME ESRS ED;
 - (d) explore possibilities for LSME user tests, including SNCI¹ and Captive insurance and Reinsurance undertakings – **the plan is to issue a call for candidates for the field test as soon as the ED is approved and before its issuance to accelerate the recruitment of companies and users;** and
 - (e) engage with the awarded third-organisation for the Cost Benefit Analysis on LSME.

Agenda Papers

- 7 In addition to this cover note, please refer also to agenda papers of the SRB meeting 13 December 2023:

LSME ED approved by SR TEG shared on SRB 24 October available at this [link](#)² (papers 05-02 to 05-06 of SRB meeting 24 October) +

- (a) Agenda paper 05-01 – LSME Cover note 131223
- (b) Agenda paper 05-02 – LSME ESRS ED Section 1 General requirements (mark-up from SRT approval + ANC comments);
- (c) Agenda paper 05-03 – LSME ESRS ED Section 2 General disclosures and Section 3 Policies, Actions and Targets (mark-up from SRT approval + ANC comments);
- (d) Agenda paper 05-04 – LSME ESRS ED Section 4 Environment (mark-up from SRT approval + ANC comments);

¹ SNCI: Small and Non-Complex Credit Institutions

² These papers were shared and discussed in SRB 24 October 2023

- (e) Agenda paper 05-05 – LSME ESRS ED Section 5 Social (mark-up from SRT approval + ANC comments);
- (f) Agenda paper 05-06 – LSME ESRS ED Section 6 Business conduct (mark-up from SRT approval + ANC comments);
- (g) Agenda paper 05-07 – LSME ESRS Approach to Value Chain Cap;
- (h) Agenda paper 05-08 – Non-guaranteed hours employees;
- (i) Agenda paper 05-09 – Two column LSME-Set 1 comparison;
- (j) Agenda paper 05-10 – Datapoint count

Appendix 1: List of the topics discussed in the meeting 13 December 2023

8 Below a table summarising the discussion points SRB 13 December 2023 (same content of paper 02-02 of this meeting):

Reference to the Cover note (SRB 13 December 2023)	EFRAG SRB decision in SRB December 2023
<p>Question 1</p> <p>Section 2 - <i>Disclosure Requirement 3 (GOV-1) – The role of the administrative, management and supervisory bodies</i></p>	<p>Compromise to keep the reinserted parts of GOV-2 (points c) and d) of paragraph 20 in paper 05-03 of SRB 13 December 2023).</p> <p>20. → The undertaking shall disclose a description of management's role in the governance processes, controls and procedures used to monitor, manage and oversee impacts and risks, including: -¶</p> <p>(a) → whether a governance body (administrative, management or supervisory bodies), or an individual(s) in the undertaking organisation (such as management level or another employee) is responsible for oversight of sustainability impacts and risks.¶</p> <p>(b) → if applicable, a brief description of the process for oversight of sustainability impacts and risks.¶</p> <p>(b)(c) → if dedicated controls and procedures are applied to the management of impacts and risks and, if so, a brief description of them, including how they are integrated with other internal functions; and¶</p> <p>(e)(d) → if a process to inform the administrative, management and supervisory bodies, including their relevant committees about material impacts, risks and the policies, actions, targets adopted to address them and the respective results and metrics is in place, a brief description of it. This description may include information on the frequency and the person in charge of this process; and¶</p>
<p>Question 1</p> <p>Section 1 - Chapter 8.2 <i>Connected information and connectivity with financial statements</i></p> <p>Par. 114</p>	<p>Change accepted (par. 114 in paper 05-02 SRB 13 December 2023)</p>
<p>Question 2</p> <p>Section 1 – <i>Chapter 4.1 Reporting undertaking and value chain</i></p> <p>Par. 61</p>	<p>Agreed to modify the proposed changes as summarised below:</p> <ul style="list-style-type: none"> - keep back the content of Set 1 and expand the paragraph to subsidiaries - include the proposed illustration in AR
<p>Question 2</p> <p>Section 1</p> <p>6.1 <i>Presenting comparative information</i></p> <p>6.2 <i>Sources of estimation and outcome uncertainty</i></p>	<p>Changes accepted.</p>

<p>Reference to the Cover note (SRB 13 December 2023)</p>	<p>EFRAG SRB decision in SRB December 2023</p>
<p>Question 2 Section 1 6.3 <i>Updating disclosures about events after the end of the reporting period</i></p>	<p>Agreed to modify the proposed changes (shall instead of may, rest accepted), as follows: <i>If not possible with reasonable effort, it may shall provide narrative information describing the conditions existing at period end and the possible implications on the sustainability statement</i></p>
<p>Question 2 Section 2 <i>Disclosure Requirement 5 (SBM-1) – Strategy, business model and value chain</i></p>	<p>Changes accepted (paragraph 28 b – paper 05-03 of SRB 13 December 2023).</p>
<p>Question 2 Section 2 <i>Disclosure Requirement 6 (SBM-2) – Interests and views of stakeholders</i></p>	<p>Changes rejected.</p>
<p>Question 2 and Question 4 Section 2 <i>Disclosure Requirement 7 (SMB-3)</i></p>	<p>Q2): Agreed to delete AR-17 to AR-19 related to “resilience of the undertaking’s strategy”, due to the fact that the related DR has been deleted in the version approved by EFRAG SR TEG, as it is not explicitly mentioned in CSRD (art. 19 a 6). Agreed to include a specific question in the public consultation: Would you like to reinsert back in ESRS LSME the “information about the resilience of the undertaking’s strategy”? Q4): Proposal to merge datapoints in paragraph 35 a) in one single datapoint rejected.</p>
<p>Question 2 Section 4 <i>Disclosure Requirement E1-2– Gross Scopes 1, 2, 3 and Total GHG emissions</i></p>	<p>Changes accepted (paragraphs 16 b, 17 b and 19 b – paper 05-04 of SRB 13 December 2023).</p>
<p>Question 2</p>	<p>Changes accepted (paragraphs 22 and 22 b, d and e – paper 05-04 of SRB 13 December 2023).</p>

<p>Reference to the Cover note (SRB 13 December 2023)</p>	<p>EFRAG SRB decision in SRB December 2023</p>
<p>Section 4 <i>Disclosure Requirement E1-3 – GHG removals and GHG mitigation projects financed through carbon credits</i></p>	
<p>Question 2 Section 4 <i>Disclosure Requirement E5-1 – Resource inflows</i></p>	<p>Changes accepted (paragraph 55 - paper 05-04 of SRB 13 December 2023)</p>
<p>Question 2 Section 4 <i>Disclosure Requirement E2-1 – Pollution of air, water and soil</i></p>	<p>In AR 44 agreed to add a clarification on the thresholds for reporting under the EPRTR.</p> <p>Agreed addition (from VSME) to be added as AR:</p> <p><i>The metrics to be disclosed under this paragraph refer to information that the undertaking is already mandated to provide by law. This requirement was conceived to avoid any additional reporting burden on undertakings. In general, this requirement is expected to apply to undertakings that are operators of one industrial installation covered by the Industrial Emissions Directive (IED). The IED applies to some 52,000 installations in Europe covering activities such as burning fuel in boilers with rated power of more than 50 MW, metal foundries, processing of non-ferrous metals, production of lime, manufacture of ceramic products by firing, production of plant protection products or biocides, tanning of hides, slaughterhouses, etc. In these cases, the installation already has to report to the competent authority the pollutants released to air, water and soil, and the data is publicly available at the European Pollutant Release and Transfer Register (E-PRTR). Companies that operate more than one facility, do not have to report on their consolidated company-wide emissions under the EPRTR, as they report only at facility level. This disclosure requirement requires to report the total amount of all the facilities. Similarly, companies owning but not operating a facility, do not have to report to the EPRTR but are expected to reflect their facility-owned emissions in their sustainability report.</i></p>
<p>Question 2 Section 4 <i>Disclosure Requirement E4-1 – Impact metrics related</i></p>	<p>Changes accepted (par. AR 56 - paper 05-04 of SRB 13 December 2023)</p>

<p>Reference to the Cover note (SRB 13 December 2023)</p>	<p>EFRAG SRB decision in SRB December 2023</p>
<p><i>to biodiversity and ecosystems change</i></p>	
<p>Question 2 Section 5 <i>Disclosure Requirement S1-2 – Characteristics of non-employees in the undertaking’s own workforce</i></p>	<p>Change rejected</p>
<p>Question 2 Section 5 <i>Disclosure Requirement S1-3 – Collective bargaining coverage</i> <i>Disclosure Requirement S1-9 – Incidents and severe human rights impacts</i> <i>Appendix B</i></p>	<p>Change accepted. - S1-3 (par. AR 23 - paper 05-05 of SRB 13 December 2023) - S1-9 (par. 46 - paper 05-05 of SRB 13 December 2023) - Appendix B.2-B.4</p>
<p>Question 3 General – Report if you have</p>	<p>Agreed to keep the current version (<i>report if you have</i> for targets, due diligence, stakeholder engagement, process to engage and process to remediate). Agreed to include a question in the public consultation on the approach to these DRs.</p>
<p>Question 5 Section 2 <i>Disclosure Requirement 7 (SMB-3)</i></p>	<p>Proposal to merge datapoints in paragraph 35 c) and d) of paper 05-03 of SRB 13 December 2023 in one single datapoint rejected. Agreed to ask a specific question in the public consultation (if it is useful to merge these two datapoints together)</p>
<p>Question 6 Section 4 <i>Disclosure Requirement E1-4– Anticipated financial effects from material physical and transition</i></p>	<p>Agreed to merge in one single datapoint paragraph 31 a) and 31 b). Changes made in paragraph 31 accepted.</p>

<p>Reference to the Cover note (SRB 13 December 2023)</p>	<p>EFRAG SRB decision in SRB December 2023</p>
<p><i>risks and potential climate-related opportunities</i></p>	
<p>Question 7</p> <p>Section 4</p> <p><i>Disclosure Requirement E1-2– Gross Scopes 1, 2, 3 and Total GHG emissions</i></p> <p><i>Disclosure Requirement E3-1 – Water consumption</i></p>	<p>Deletion of intensity ratios for GHG and water: rejected.</p>
<p>Question 8</p> <p>Section 5</p> <p><i>Disclosure Requirement S1-1 – Characteristics of the undertaking’s employees</i></p> <p>(non guaranteed hours)</p>	<p>Change rejected.</p>
<p>Question 9</p> <p>Section 5</p> <p><i>Disclosure Requirement S1-5 – Social protection</i></p> <p>(disclose countries without social protections)</p>	<p>Agree to delete “all” in par. 28 and to limit the disclosure to main countries without social protection (par. 29 - paper 05-05 of SRB 13 December 2023)</p>
<p>Question 10</p> <p>Section 5</p> <p><i>Disclosure Requirement S1-4 – Adequate wages</i></p>	<p>Agree to delete “all” in par. 23 and to limit the disclosure to main countries without social protection (par. 24 - paper 05-05 of SRB 13 December 2023)</p>

<p>Reference to the Cover note (SRB 13 December 2023)</p>	<p>EFRAG SRB decision in SRB December 2023</p>
<p>(disclose countries without adequate wages)</p>	
<p>N/A – Topical sections</p>	<p>Many of the comments by the ANC relate to the importance for undertakings to apply the correct materiality filter. The SRB agreed to include at the beginning of each topical section (Sections 3 to 5) the following:</p> <p><i>The undertaking shall apply the requirements in this Section, when it concludes that the corresponding topic is material (according to chapter 3.3 Double materiality, 3.4 Impact materiality and 3.5 Financial materiality of Section 1). Following the undertaking’s assessment of the materiality of the information according to paragraph 36 of Section 1, the sustainability statement shall include those disclosures prescribed in this Section that are assessed to be material. Individual datapoints may be omitted when the corresponding information is not material and the undertaking concludes that such information is not needed to meet the objective of the Disclosure Requirement.</i></p>
<p>N/A – Section 5</p>	<p>Agree to replace the threshold 50 employees and more than 10% of the total employees with 10% only, dropping the 50 employees component of the threshold. To be applied in all the Section.</p>