Executive Summary for Comment Letters Only LSME ED Public Consultation

This report offers only a partial view of the overall feedback. For a complete view, the findings in this report (feedback from comment letters only) needs to be read in conjunction with the findings of the online survey.

About this report

1. EFRAG has conducted a public consultation on the Exposure Draft for a sustainability reporting standard for listed SMEs (including micro undertakings) ((LSME ED) to gather views form stakeholders. Beside the feedback received via the online consultation survey, EFRAG has received comment letters from several stakeholders.

2. EFRAG Secretariat has received 21 Comment Letters outside the online survey. Please note that the comment letters relate to associations, authorities/standard setters and not to individual stakeholders. As such their weight is being considered when describing the trends in the overall conclusions for the strategic orientations paper.

3. This report is organised by stakeholders' group as follows: 8 "preparers" (Industry/ Undertaking Associations), 1 "user" (users of sustainability reporting statements – association of users) and "others" (10 Authorities/ Standard Setters and 2 NGOs).

Executive Summary of feedback received outside online survey, via comment letters

4. From the analysis of the comment letters received outside the online survey, the following key messages arise for each of the questions and for each stakeholder group.

Part A

5. For **Q1** on whether respondents agreed and disagreed with **the approach adopted to develop the LSME ESRS ED**, the majority of **Authorities/ Standard Setters** comment letter respondents agreed with the LSME approach proposed. Those agreeing state that the proposed LSME ED is well balanced between proportionality and CSRD requirements. Additionally, an Authority/ Standard Setter specified that the approach taken is necessary as the value chain cap is fixed at LSME level, making the current LSME ED essential to have a clear value chain cap required to have the LSME as the value chain cap. Authorities/ Standard Setters that disagreed call for a different approach to be pursued, based on the three VSME modules. An additional module on top of the VSMEs Basic, Narrative-PAT and Business Partners modules should be created to include additional information ("EU-datapoints") that FMPs require from LSMEs. Furthermore, differently to the VSME, the VSME+ approach for listed SMEs would have to be based entirely on materiality (CSRD requirement) CSRD. Most of **Industry/ Undertaking Associations** disagree with Q1 – approach taken for the LSME ED. There is clear consensus from this stakeholder group that the current LSME ED would be too complex and burdensome for listed SMEs. The limited resources that listed SMEs have should be taken into account and proportionate disclosure requests should be requested. There is consensus on using the VSME+ modular approach to create more proportionate disclosure requests. Authorities/ Standard Setters that agreed with the current approach of the LSME ED did not provide any comments. One **User of sustainability reporting** agreed with the approach taken. The respondent stated that as LSMEs are in a regulated market, the LSME ESRS should be as close as possible to ESRS Set 1's structure. This is needed to ensure usability and comparability for investors. Two **NGOs** agreed with the approach taken stating that it is very important for the LSME to be as close as possible to ESRS Set 1.

6. For **Q2** on **EU data points**, most **Authorities/ Standard Setters** agreed with the approach taken stating that all requirements stemming from CSRD, SFDR, Pillar 3 and the benchmark regulation should be included. Most **Industry/ Undertaking Associations** did not answer the question through the comment letters. However, one agreed with the approach and did not provide additional comments. The only **user of sustainability reporting** that answered through comment letters agrees with the approach taken on EU data points stating that they support the extent the LSME is compliant with SFDR/ benchmarks/ Pillar 3 requirements. One out of two **NGOs** that responded through comment letters agreed with the approach taken on EU datapoints, the other NGO did not answer to this question. The NGO that agreed stated that the approach taken is essential to be EU law compliant and to guarantee access to finance for listed SMEs.

7. For **Q3** on the **approach taken on ISSB interoperability,** all of the Q3 **Authorities/ Standard Setters** comment letter respondents agreed with the ISSB interoperability approach pursued viewing interoperability and alignment with international requirements as essential given that many SME's

growth paths often involve operating in international markets. Should the LSME standard be not interoperable with international requirements, EU listed SMEs operating on international markets could be subject to additional reporting requests, increasing complexity for EU listed SMEs. Most **Industry/ Undertaking Associations** comment letters respondents did not answer to this question. The only Industry/ Undertaking Association that answered, disagreed with the ISSB interoperability approach but did not provide additional comments. The one **User** that responded through comment letters disagreed with the approach taken on ISSB interoperability, as that not all disclosures should be required. However, essential disclosures should be aligned to the greatest extent possible with ESRS Set 1, meaning also IFRS S1 and IFRS S2. No **NGO** answered to Q3.

8. For **Q4** on **the approach taken on entity-specific disclosures**, only 4 total respondents answered through comment letters. 3 of these being **Authorities/ Standard Setters** and one **an Industry/ Undertaking Association**. All 4 respondents agree with maintaining the same approach as in ESRS Set 1.

9. For **Q5** on **the materiality approach,** most **Authorities/ Standard Setters** agreed with the approach taken, stating that the current approach is in line with ESRS Set 1. One Authority/ Standard Setter stated that they welcome the explicit indication that an individual materiality assessment for each value chain actor is not required. Additionally, an Authority/ Standard setter suggested to use phase-ins for materiality assessments, to simplify the reporting process for listed SMEs. Overall Authorities/ Standard Setters agree with the approach taken on materiality; however, they suggest additional simplifications, clarifications, and suggestions related to the implementation of materiality within a VSME+ architecture. A few **Industry/ Undertaking Associations** did not answer to Q5. Those that did, all agreed with the approach taken on materiality. Respondents highlighted the need for useful and practical guidance for materiality assessments, mapping IROs in the value chain, and set thresholds for financial/ impact materiality. The one **user** that responded through comment letters, agreed with the approach taken on materiality but did not provide additional comments. Two **NGOs** that responded to Q5 agreed with the approach taken on materiality stating that materiality is essential to ensure that listed SMEs are in line with the EU's sustainable finance framework. An NGO suggests granting access to listed SMEs to easy-to-use reporting frameworks that mirror ESRS set 1.

10. For **Q6** on the **approach to phase-ins of the LSME,** one **Authority/ Standard Setter** agrees with the approach on phase-ins. Multiple Authorities/ Standard Setters suggest putting the same phase ins for those SMEs choosing the opt out until 2028. An **NGO** suggested to remove 1 year of phase-in for diversity metrics.

11. For **Q7** on the **employee threshold that should be applied to all undertakings in scope**, an **Authority/ Standard Setter** agrees the proposed threshold. No other comments for this question were provided through comment letters.

12. For **Q8** on the **"report if you have"** approach, multiple **Authorities/ Standard Setters** agree with the approach. Additionally, one suggested turning these DRs into MDR logic – report if you have or if not, explain about future plans. One Authority/ Standard Setter disagrees with the "report if you

have approach" stating that this goes beyond the mandate of the CSRD. No other comments were provided by other stakeholder groups.

13. For **Q9.1** on the **LSME as value chain cap,** out of 9 **authorities/ standard setters** comment letter respondents, 3 did not answer to the question, 4 disagreed and 2 agreed. In addition to these 3 **Industry/ Undertaking Associations** disagreed with the approach taken. All respondents that disagreed would prefer to have VSME ED as the VC cap or to build on VSME ED to define the so-called VC cap. These respondents point out that considering that most SMEs in the value chain of large undertakings are non-listed, these companies will potentially receive a series of data requests from large undertakings. They think that if the DRs of LSME are set excessively higher than those for VSME ED, as currently proposed by EFRAG in LSME, non-listed SMEs could risk not meeting the information requests within the value chain cap. The 2 respondents that agreed would request for additional guidance and examples to better explain the VC implications and the VC scope. No **Users** or **NGOs** answered to Q9.1 through comment letters.
14. For **Q10** on which **possible sector specific IROs for LSME should be used.** One **Authority/ Standard Setter** stated that that the entity specific disclosures should be replaced by sector matters. Another Authority/ Standard Setter stated that this decision should depend on the complexity of the final version of ESRS sector specific standards, but that they generally preferred option 2 ("*Undertakings applying ESRS LSME ED should apply, on a voluntary basis, the content of the future Sector ESRS for large undertakings"*). Another Authority/ Standard Setters suggests using Option 4 ("*Undertakings applying ESRS LSME ED should apply on a voluntary basis sector specific guidelines and disclosures applicable to both listed and non-listed SMEs, to be issued by EFRAG as a nonauthoritative annex to the future sector-ESRS").*

<u>Part B</u>

15. In **section 1 (Q11-12)**, on the **proposed simplifications of the general requirements; on Impacts, Risks and Opportunities**, two **Authorities/ Standard Setters** suggest including positive impacts within their sustainability reports. Additionally, one of these two Authorities/ Standard Setters is in agreement with the LSME ED's proposed approach to simplify general requirements. This Authority/ Standard Setter provides two additional suggestions: 1) keep the same requirement as in ESRS Set 1 based on which when climate change is not deemed material, undertakings shall explain that conclusion. 2) require listed SMEs to specify whether one or more large undertakings have a particularly relevant or even predominant place in its upstream or downstream VC so to influence their policies, actions and targets, to then show users how their policies are interrelated with other VC actors. An **Industry/ Undertaking Association** states that it agrees with all of section 1.
16. In **section 2 (Q13-Q16)**, on general disclosures, multiple stakeholders provided additional information through comment letters. An **Authority/ Standard Setter** supports keeping current and anticipated financial effects separate. Another Authority/ Standard Setter suggests to insert information about the resilience of the undertaking' strategy, asking only a qualitative analysis (this requires implementation guidance) **An Industry/ Undertaking Association** agrees with section 2

apart from DR-6 (SBM2) and DR-9 (IR 1). A **User** suggests reintroducing DRs on the role of governance bodies and how they oversee and monitor, suggesting keeping the same structure and working of ESRS 2 GOV-1, GOV-2, GOV-3, GOV-4, GOV-5. An **NGO** highlights the same governance related issue and also requests for GOV 1, 2, 3, 4, and 5 to be as in ESRS set 1.

17. In **section 3 (Q17-Q18) on Policies, Actions and Targets,** multiple **Authorities/ Standard Setters** agreed with section 3, while requesting for further guidance in Appendix D. However, another Authority/ Standard Setter suggested for additional changes/ reductions/ simplifications/ deleted/ optionality clauses in section 3. An **Industry/ Undertaking Association** also agreed with the LSME ED.

18. In **section 4 (Q19-Q22) on Environment,** an **Authority/ Standard Setter** agreed with the approach of centralising anticipated financial effects from topics other than climate change. Another Authority/ Standard Setter suggested reconsidering the deletion of GHG removal projects in the VC from section 4. An additional Authority/ Standard Setter agreed with allowing the use of different metrics. Finally, a fourth Authority/ Standard Setter disagreed with multiple parts of section 4 and asked to delete/ streamline certain paragraphs linked to Q19. This Authority/ Standard Setter agreed with Q20 and Q21. An **Industry/ Undertaking Association** disagreed with the approach on whether the guidance requires a disclosure breakdown for financed emissions.

19. In **section 5 (Q23 – 24) on Social aspects,** Responses on Social aspects were largely highly supportive of the way in which the disclosure requirements from ESRS set 1 had been changed to accommodate LSMEs, although in the case of some questions there were also significant dissenting minorities. The comment letters by and large confirmed what had come out of the survey responses, regarding the need to clarify certain terms and concepts, like 'non-employees', 'adequate wage', or the concern about data protection rules and the privacy of employees. There were, of course, several requests for deleting more disclosure items, while others wanted certain disclosures reinstated. However, none of these requests came close to a majority of comment letters.

20. In **section 6 (Q25-Q28),** only one comment was provided through comment letters. An **Industry/ Undertaking Association** agreed with the DRs in Section 6 (Q25).