EFRAG
sustainability reporting

DRAFT

ESRS FOR LISTED SMALL – AND MEDIUM – SIZED ENTERPRISES

VERSION FEBRUARY 2025

Disclaimer

The Draft European Sustainability Reporting for listed SMEs (draft ESRS LSME) has been approved by EFRAG SR TEG as a technical recommendation to the EFRAG SRB. This version has been discussed at SRB meeting held on 27 November 2024.

On 27 November 2024, the EFRAG SRB noted the present political circumstances. Waiting for indications from the new European Commission on the foreseen EFRAG advice on ESRS LSME which is planned for the end of December, the EFRAG SRB could not vote on the approval of the standard in this meeting. The EFRAG SRB received an update on the status of the current version. The EFRAG SRB Chair, to conclude the technical activities, asked members to express their views and potential red flags assuming that ESRS LSME had to be delivered as initially planned. A majority of the 17 members did not express red flags. A formal vote on the issuance of the standard will be considered at a later stage.

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STATUS OF THIS DRAFT

Editorial review in progress. Still pending:

- Editorial check
- Inclusion of a hyperlink after each requirement referencing to the AR that cover that specific requirement
- Check drafting conventions (italics)
- Final check of internal references to paragraph numbers including references to other sections

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARD FOR LISTED SMES (DRAFT ESRS LSME)

DRAFT ESRS LSME is structured in six Sections:

Section 1 *General requirements,*

Section 2 *General Disclosures*,

Section 3 *Policies, actions and targets*,

Section 4 *Environment*,

Section 5 *Social*,

Section 6 *Business conduct*.

Each section has its progressive numbering of paragraphs and is accompanied by its appendices, as detailed in the front page of each Section in this Draft.

Draft ESRS LSME Table of Contents

SECTION 1 GENERAL REQUIREMENTS 9

Objective and scope 10

LSME General Requirements 11

1. Categories of disclosures, reporting areas and drafting conventions 11

1.1 Complying with [draft] LSME ESRS 11

1.2 LSME ESRS ED structure and reporting areas 12

1.3 Terminological conventions 13

2. Qualitative characteristics of information 14

3. Double materiality as the basis for sustainability disclosures 15

3.1 Stakeholders and their relevance to the materiality assessment process 15

3.2 Material matters and materiality of information 15

3.3. Double materiality 17

3.4 Impact materiality 17

3.5 Financial materiality 18

3.7 Level of disaggregation 19

4. Value chain 19

4.1 Reporting undertaking and value chain 19

4.2 Estimation using sector averages and proxies 20

5. Time horizons 21

6. Preparation and presentation of sustainability information 21

6.1 Presenting comparative information 21

6.2 Sources of estimation and outcome uncertainty 22

6.3 Updating disclosures about events after the end of the reporting period 22

6.4 Changes in preparation or presentation of sustainability information 22

6.5 Reporting errors in prior periods 23

6.6 Classified and sensitive information, and information on intellectual property, know-how or results of innovation 23

6.7 Matters in the course of negotiation 24

7. Structure of the sustainability statement 24

7.1 Content and structure of the sustainability statement 24

8. Linkages with other parts of corporate reporting and connected information 25

8.1 Incorporation by reference 25

8.2 Connected information and connectivity with financial statements 26

9. Transitional provisions 27

9.1 Transitional provision related to chapter 4: Value chain 27
9.2 Transitional provision related to section 6.1 Presenting comparative information 27
9.3 Transitional provision: List of Disclosure Requirements that are phased-in for this [draft] Standard to year two or subsequent years 27
Appendix A: Application Requirements 28
Application requirements – Entity-specific disclosures 28
Application requirements – Double materiality 29
Stakeholders and their relevance to the materiality assessment process 29
Level of disaggregation 36
Application requirements – Reporting undertaking and value chain 36
4.2 Application requirements – Estimation using sector averages and proxies 37
Appendix B: Qualitative characteristics of information 39
Appendix C: List of phased-in Disclosure Requirements 42
Appendix D: Structure of ESRS sustainability statement 47
Appendix E: Flowchart for determining disclosures under [draft] ESRS LSME 48
Appendix F: Example of structure of ESRS sustainability statement 50
Appendix G: Example of incorporation by reference 51
Appendix H: List of Disclosure/Application Requirements in Section 2 52
SECTION 2 GENERAL DISCLOSURES 53
General Disclosures 54
Objective 54
1. Basis for preparation 54
Disclosure Requirement 1 (BP-1) – General basis for preparation of the sustainability statement 54
Disclosure Requirement 2 (BP-2) – Disclosures in relation to specific circumstances 54
2. Governance 56
Disclosure Requirement 3 (GOV-1) – The role of the administrative, management and supervisory bodies 56
Disclosure Requirement 4 (GOV-2) – Due diligence 57
3. Strategy 57
Disclosure Requirement 5 (SBM-1) – Strategy, business model and value chain 57
Disclosure Requirement 6 (SBM-2) – Interests and views of stakeholders 58
Disclosure Requirement 7 (SBM-3) – Interaction of material impacts and risks with strategy and business model 58
Voluntary Disclosure 8 (SBM-4) – Positive impacts and material opportunities 63

4. Impact and risk management 63

4.1 Disclosures on the materiality assessment process 63

Disclosure Requirement 9 (IR-1) – Processes to identify and assess material impacts and risks 63

Disclosure Requirement 10 (IR-2) – Disclosure Requirements in ESRS LSME covered by the undertaking's sustainability statement 65

Appendix A: Application Requirements – Section 2 General disclosures 66

1. Basis for preparation 66

Disclosure Requirement 1 (BP-1) – General basis for preparation of the sustainability statement 66

Disclosure Requirement 2 (BP-2) – Disclosures in relation to specific circumstances 66

2. Governance 66

Disclosure Requirement 4 (GOV-2) – Due diligence 66

3. Strategy 66

Disclosure Requirement 5 (SBM–1) – Strategy, business model and value chain 66

Disclosure Requirement 7 (SBM-3) – Material impacts and risks and their interaction with strategy and business model 67

Appendix B: List of datapoints in [draft] ESRS LSME that derive from other EU legislation 68

Appendix C: Application Requirements for disclosures related to Section 5 Social Metrics 79

SECTION 3 POLICIES, ACTIONS AND TARGETS 80

Objective 81

Disclosure Requirement 11 (IR-3) – Policies and actions in relation to sustainability matters 81

Disclosure Requirement 12 (IR-4) – Targets in relation to sustainability matters 90

Appendix A: Application Requirements – Section 3 Policies, Actions and Targets 93

Disclosure Requirement 11 (IR-3) – Policies and actions in relation to sustainability matters 93

Disclosure Requirement 12 IR-4) – Targets in relation to sustainability matters 96

Appendix B: Application Requirements for IR-3 on Policies related to own workforce. 98

Appendix C: Application Requirements for IR–3 Actions and resources to manage material impacts on own workforce, and approaches to mitigating material risks related to own workforce, and effectiveness of those actions 99

SECTION 4 ENVIRONMENT METRICS 101

Objective 102

Climate Change – Disclosure Requirements (E1) 102

Disclosure Requirement E1-1– Energy consumption and mix 102
Disclosure Requirement E1-2– Gross Scopes 1, 2, 3 and Total GHG emissions 103
Disclosure Requirement E1-3 – GHG removals and storage projects 103

Pollution – Disclosure Requirements (E2) 104
Disclosure Requirement E2-1– Pollution of air, water and soil 104

Water and Marine Resources - Disclosure Requirements (E3) 104
Disclosure Requirement E3-1 – Water consumption 104

Biodiversity and ecosystems – Disclosure Requirements (E4) 105
Disclosure Requirement E4-1 – Impact metrics related to biodiversity and ecosystems change 105

Resource use and Circular Economy – Disclosure Requirements (E5) 105
Disclosure Requirement E5-1 – Resource inflows 105
Disclosure Requirement E5-2 – Resource outflows 105

Anticipated financial effects from material environmental-related matters – Disclosure Requirements (E6) 106

Appendix A: Application Requirements 107
Application Requirements-Climate Change E1 107
Disclosure Requirement E1-1 – Energy consumption and mix 107
Disclosure Requirements E1-2 – Gross Scopes 1, 2, 3 and Total GHG emissions 109
Disclosure Requirement E1-3 – GHG removals and storage projects 114
GHG removals and storage in own operations 114
Application Requirements-Pollution (E2) 115
Disclosure Requirement E2-1 – Pollution of air, water and soil 115
Application Requirements-Water and Marine Resources (E3) 118
Disclosure Requirement E3-1 – Water consumption 118
Application Requirements-Biodiversity and ecosystems (E4) 118
Disclosure Requirement E4-1 – Impact metrics related to biodiversity and ecosystems change 118
Application Requirements- Resource use and Circular Economy (E5) 119
Disclosure Requirement E5-1 – Resource inflows 119
Disclosure Requirement E5-2 - Resource outflows 120
Application Requirements - Anticipated financial effects from material environmental-related matters impacts and risks(E6) 121

SECTION 5 SOCIAL METRICS 122

Objective 123

Own workforce (S1) 124
Metrics 124

Disclosure Requirement S1-1 – Characteristics of the undertaking's employees 124
Disclosure Requirement S1-2 – Characteristics of non-employees in the undertaking's own workforce 125
Disclosure Requirement S1-3 – Collective bargaining coverage 125
Disclosure Requirement S1-4 – Adequate wages 126
Disclosure Requirement S1-6 Training metrics 126
Disclosure Requirement S1-7 – Health and safety metrics 126
Disclosure Requirement S1-8 – Remuneration metrics (pay gap and total remuneration) 127
Disclosure Requirement S1-9 – Incidents and severe human rights impacts 127
Disclosure Requirement S1-10 – Diversity metrics 128

Appendix A: Application Requirements 129
Metrics 129
Disclosure Requirement S1-1 – Characteristics of the Undertaking's Employees 129
Disclosure Requirement S1-2 – Characteristics of non-employees in the undertaking's own workforce 131
Disclosure Requirement S1-3 – Collective bargaining coverage 132
Disclosure Requirement S1-4 – Adequate Wages 132
Disclosure Requirement S1-6 – Training metrics 133
Disclosure Requirement S1-7 – Health and safety metrics 133
Disclosure Requirement S1-8 – Remuneration metrics (gender pay gap and total remuneration ratio) 135
Disclosure Requirement S1-9 –Incidents and severe human rights impacts 136
Disclosure Requirement S1-10 – Diversity metrics 136

SECTION 6 BUSINESS CONDUCT METRICS 137

Objective 138
Metrics 138
Disclosure Requirement G1-1 –Anti-corruption and anti-bribery 138
Disclosure Requirement G1-2 – Political influence and lobbying activities 138

Appendix A: Application Requirements 140
Disclosure Requirement G1-2 – Political influence and lobbying activities 140

[Draft] ESRS LSME

SECTION 1 GENERAL REQUIREMENTS

DISCLAIMER

Section 1 *General requirements* is set out in paragraphs 1–121. The following appendices of Section 1 have the same authority as the main body of the [draft] Standard:
- *Appendix A: Application Requirements*,
- *Appendix B: List of phased-in Disclosure Requirements*, and
- *Appendix C: Structure of ESRS sustainability statement*.

ESRS LSME Section 1 *General requirements* is accompanied by the following illustrative non-authoritative appendices:
- *Appendix D: Flowchart for determining disclosures to be included*,
- *Appendix E: Example of structure of ESRS sustainability statement*,
- *Appendix F: Example of incorporation by reference*, and
-*Appendix G: List of Disclosure/Application Requirements in Section 2.*

Objective and scope

1. The objective of this European Sustainability Reporting Standard for listed SMEs (LSME ESRS) is to specify the sustainability information that the undertakings identified in the paragraphs below shall disclose in their individual sustainability statement in accordance with Directive 2013/34/EU of the European Parliament and of the Council[1], as amended by Directive (EU) 2022/2464[2] (the "CSRD"), when they elect to present their sustainability statement in accordance with the sustainability reporting standards for small and medium-sized undertakings. Reporting in accordance with LSME ESRS does not exempt undertakings from other obligations laid down in substantive Union law. In particular, this [draft] Standard sets out *General Requirements* (Section 1), *General Disclosures* (Section 2), *Policies, actions and targets* (Section 3) and *Topical Metrics* (Sections 4, 5 and 6) that specify the sustainability information to be disclosed in accordance with Directive 2013/34/EU as amended by Directive EU 2022/2464 Corporate Sustainability Reporting Directive when using the derogation in Art. 19a(6) and 29c.

2. The following undertakings fall within the scope of LSME ESRS (hereafter collectively referred to as 'the LSME' or 'the undertaking'):

   (a) small and medium-sized undertakings within the meaning of Article 3(2) and (3) of Directive 2013/34/EU which are public-interest entities as defined in point (a) of point (1) of Article 2 of that Directive and which are not micro-undertakings as defined in Article 3(1) of that Directive;

   (b) small and non-complex institutions defined in point (145) of Article 4(1) of Regulation (EU) No 575/2013, provided they are large undertakings within the meaning of Article 3(4) of Directive 2013/34/EU or that they are small and medium sized undertakings within the meaning of Article 3(2) and (3) of that Directive which are public-interest entities as defined in point (a) of point (1) of Article 2 of that Directive and which are not micro undertakings as defined in Article 3(1) of that Directive; 16.12.2022 EN Official Journal of the European Union L 322/77;

   (c) captive insurance undertakings defined in point (2) of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council (39), and captive reinsurance undertakings defined in point (5) of Article 13 of that Directive, provided that they are large undertakings within the meaning of Article 3(4) of Directive 2013/34/EU or that they are small and medium sized undertakings within the meaning of Article 3(2) and (3) of that Directive which are public-interest entities as defined in point (a) of point (1) of Article 2 of that Directive and which are not micro-undertakings as defined in Article 3(1) of that Directive.

3. An LSME is allowed to use the derogation in Art. 19a (6) and 29c of the CSRD and prepare its individual sustainability statement using this [draft] Standard when it is not a parent undertaking of a large group. A large group is a group that on a consolidated basis exceeds the limits of at least two of the three following criteria as defined in Art. 3 (7) of Directive 2013/34/EU:

   (a) balance sheet total – EUR 25,000,000,

   (b) net turnover – EUR 50,000,000,

   (c) average number of employees during the financial year – 250.

[1] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

[2] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (OJ L 322, 16.12.2022, p. 15).

4. An LSME, which is a parent undertaking of a large group, is required to present a consolidated sustainability statement in its management report prepared according to the ESRS for large undertakings (Art. 29a and 29b of Directive 2013/34/EU as emended by the CSRD, Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023). However, if an LSME is parent undertaking of a large group and it is exempted from preparing and publishing consolidated financial statements based on Article 23(10) of the Accounting Directive (i.e. because it only has subsidiary undertakings which are immaterial, both individually and collectively, or because all its subsidiary undertakings can be excluded from consolidation by virtue of Article 23(9) of the Accounting Directive), that LSME is not required to prepare and publish a consolidated sustainability statement and may prepare its individual sustainability statement in accordance with this [draft] Standard (Article 19a(6) Accounting Directive).

5. In particular, the [draft] ESRS LSME specifies the information that an undertaking shall disclose about its material ***impacts*** and ***risks*** (and opportunities) in relation to environmental, social and governance ***sustainability matters*** (topics, sub-topics and sub-sub-topics, as defined in AR 22 of this section). The ESRS LSME does not require undertakings to disclose any information on environmental, social or governance topics covered by this standard when the undertaking has assessed the topic in question as non-material (see *Appendix E: Flowchart for determining disclosures under ESRS LSME*). The information disclosed in accordance with this [draft] Standard enables ***users*** of the ***sustainability statement*** to understand the undertaking's material negative impacts on people and environment as well as the material effects of sustainability matters on the undertaking's development, performance and position. Reporting on positive impacts and opportunities is voluntary.

LSME General Requirements

6. This section lays out the general requirements that undertakings shall comply with when preparing and presenting their individual sustainability statement under article 19a (6) and article 29c of the CSRD. This [draft] Standard establishes sustainability reporting requirements for undertakings in scope that are proportionate and relevant to their capacities and characteristics and to the scale and complexity of their activities.

1. Categories of disclosures, reporting areas and drafting conventions

1.1 Complying with [draft] LSME ESRS

7. The undertaking shall disclose, in accordance with this [draft] Standard, all of its material information concerning ***impacts*** and ***risks*** (and opportunities) in relation to environmental, social, and governance matters.

8. In this [draft] Standard the term impacts is used to indicate both negative and positive impacts, in particular the first reported mandatorily (subject to the relevant materiality considerations as per paragraphs 47 to 53 of Section 1) and the second when additionally reported on a voluntary basis. Opportunities are included in parenthesis after risks to indicate that a provision is applicable to both risks reported mandatorily (subject to the relevant materiality considerations as per paragraphs 54 to 62 of Section 1) and to opportunities when reported on a voluntary basis.

9. The undertaking may on a voluntary basis (as define in paragraph 8) disclose in its sustainability statement prepared pursuant to this [draft] Standard:

   (a) material information regarding its positive impacts in relation to environmental, social and governance matters; and

   (b) sustainability-related financial opportunities (in this [draft] Standard "opportunities") that generate or are likely to generate material financial effects in the short-, medium- or long-term.

10. The undertaking shall present its individual sustainability statement containing material sustainability-related information as part of its management report (see chapter 8 *Structure of sustainability statement*.

1.2 LSME ESRS ED structure and reporting areas

11. This [Draft] Standard is composed of the following sections:

    Section 1 *General requirements;*

    Section 2 *General disclosures;*

    Section 3 *Policies, actions and targets;*

    Section 4 *Environmental metrics;*

    Section 5 *Social metrics;* and

    Section 6 *Business conduct metrics*.

12. Section 1, Section 2 of this [draft] Standard are cross-cutting, whereas Section 3 is on Policies, actions and targets (including minimum disclosures requirements and covering also topical content) and, Section 4, Section 5 and Section 6 are topical (environmental, social and business conduct metrics, respectively). All sections are sector-agnostic, meaning that they apply to all undertakings regardless of the sector or sectors they operate in. Section 1 (*General requirements*), Section 2 (*General disclosures*) and Section 3 (*Policies, actions and targets*) apply to the ***sustainability matters*** covered in the topical sections. Section 2 of this [draft] Standard establishes certain information that is to be mandatorily provided irrespective of materiality consideration by the undertaking at a general level, across all sustainability topics; however, paragraph 32 below is applicable to Section 2 in determining the granularity of the information to be provided.

13. Sections 3 to 6 of this [draft] Standard cover sustainability topics. Topics are broken down into topics, subtopics and, where necessary, sub-subtopics. Disclosure Requirements (hereafter also "DRs") are organised in accordance with this topical approach. The table found in *Appendix A: Application Requirements* of this [draft] Standard (paragraph AR 22 offers the list of sustainability topics, subtopics and sub-subtopics (collectively, '***sustainability matters***') covered in the aforementioned sections.

14. The Disclosure Requirements in this [draft] Standard cover the following reporting areas:

    (a) **Governance** (GOV): the governance processes, controls and procedures used to monitor and manage ***impacts*** and ***risks*** (and opportunities) (see Section 2 of this [draft] Standard, chapter 2 *Governance*);

    (b) **Strategy** (SBM): how the undertaking's strategy and business model interact with its material ***impacts*** and ***risks*** (and opportunities), including how the undertaking addresses those ***impacts*** and ***risks*** (and opportunities) (see Section 2 of this [draft] Standard, Chapter 3 *Strategy*);

    (c) **Impact and risk management** (IR): the process(es) by which the undertaking *(i)* identifies impacts and risks (and opportunities) and assesses their ***materiality*** (see Section 2 *Disclosure Requirement 9 (IR-1)*); *(ii)* manages material ***sustainability matters*** through ***policies*** and ***actions*** (see Section 3 *Disclosure Requirement 11 (IR-3)*); *(iii)* discloses information about ***targets*** if it has set them (see Section 3 *Disclosure Requirement 12 (IR-4)*); *(iv)* engages with ***own workers***, workers in the value chain, ***affected communities***, consumers and ***end-users***, and their representatives on such ***impacts*** to the extent that it has ***stakeholder engagement*** in place (see Section 3 *Disclosure Requirement 13 (IR-5)*); and *(v)* remediates negative ***impacts*** and implements channels for ***own workers***, workers in the value chain, ***affected communities***, ***consumers*** and ***end-users*** to raise concerns to the extent that it has

remediation activities and channels in place (see Section 3 *Disclosure Requirement 14 (IR-6)*); and

(d) **Metrics** (M): how the undertaking measures its performance (see sections 4, 5 and 6 of this [draft] Standard).

15. In addition to the disclosure requirements laid down in the sections listed in paragraph 11, when an undertaking concludes that an ***impact*** or ***risk*** (or opportunity) is either not covered or not covered with sufficient granularity by a section of this standard, but is material due to the undertaking's specific facts and circumstances it shall provide additional entity-specific disclosures to enable users to understand the undertaking's ***sustainability-related impacts and risks (or opportunities)***. This includes sector-specific information that are not covered by this [draft] sector agnostic standard. When appropriate, such sector-specific information shall cover information about upstream and downstream value chain (including subsidiaries).

16. When disclosing sector-specific information to be covered as entity-specific disclosure, the undertaking may consider relevant sector ESRS, when Sector specific ESRS for large undertakings will be effective.

17. Furthermore, in disclosing sector-specific information to be covered as entity-specific disclosure, the undertaking may be inspired by the available and relevant frameworks, initiatives, reporting standards and benchmarks (such as technical material issued by the International Sustainability Standards Board, the Global Reporting Initiative) enhancing comparability to the maximum extent possible.

18. Application Requirements AR 1 to AR 7 of this section provide further guidance regarding entity-specific disclosures.

1.3 Terminological conventions

19. In this [draft] Standard:

(a) the term '***impacts***' refers to ***sustainability-related impacts*** (both negative and positive impacts, as defined in paragraph 8) connected to the undertaking's business as identified through an ***impact materiality*** assessment process (see section 3.4 *Impact materiality*). It refers both to actual impacts and potential future impacts; and

(b) the term '***risks***' refers to the undertaking's sustainability-related financial risks, including those deriving from ***dependencies*** on natural, human and social resources as identified through a ***financial materiality*** assessment process (see Section 3.5).

Collectively, these are referred to as '***impacts*** and ***risks***' (IRs). They reflect the ***double materiality*** perspective of ESRS described in chapter 3; the disclosure of ***material opportunities*** is made only on voluntary basis (as defined in paragraph 8).

20. In this [draft] Standard, terms that are defined in the glossary of definitions (Annex II) are marked in ***bold italic*** except when they are used more than once in the same paragraph.

21. The ESRS structure the information that is to be disclosed under the Disclosure Requirements. Each disclosure requirement consists of one or more distinct datapoints. The term 'datapoint' can also refer to a narrative sub-element of a disclosure requirement.

22. In addition to the Disclosure Requirements, most sections also contain Application Requirements. Application Requirements support the application of the Disclosure Requirements and have the same authority as the other parts of this [draft] Standard.

23. This [draft] Standard uses the following terms to distinguish between different degrees of obligation on the undertaking to disclose information:

(a) "shall disclose" – indicates that the provision is prescribed by a Disclosure Requirement or datapoint;

(b) “may disclose” – indicates voluntary disclosure to encourage good practice.

24. Some of the disclosure requirements are applicable only when certain circumstances that trigger disclosure are met. When the circumstances are different from those that would trigger disclosure of that specific datapoint, no information has to be provided. This approach could support the assessment of the materiality of the information, indicating in which circumstances the information could be material, but it is not replacing the double materiality assessment to be performed by the undertakings according to chapter 3 of this section. This includes datapoints to be disclosed only when an undertaking has a process, policy, action, etc. in place that would trigger disclosure of that specific information.

25. In addition, this [draft] Standard uses the term “shall consider” when referring to topic specific information in Section 3, issues, resources or methodologies that the undertaking is expected to take into account or to use in the preparation of a given disclosure if applicable.

26. Some disclosure requirements in this [draft] Standard[3] include a "reasonable effort" clause. This means that an undertaking is not required to provide the disclosure in question if the cost or effort required to obtain the necessary information is excessive relative to its benefits, i.e., if it does not make a material difference to the significance of the information or to the decision-making by users of the ESRS statement, in the meaning of paragraph 38 of this Section. The "reasonable effort" principle depends on the degree of the undertaking's exposure to impacts and risks, its specific facts and circumstances as well as the conditions of the external environment in which it operates, and the benefits of the resulting information. What constitutes reasonable effort is therefore likely to vary from undertaking to undertaking. The undertaking shall consider all information that is 'reasonably available' to them at the reporting date. This also means that it cannot disregard any information it already has or knows about, as it must be factored into its assessment of what constitutes “reasonable effort”.

2. Qualitative characteristics of information

27. When preparing its sustainability statement the undertaking 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.

28. These qualitative characteristics of information are defined and described in *Appendix B* of the present section of this [draft] Standard.

[3] Such circumstances appear across this [draft] Standard, namely: chapters 4.2, 6.1, 6.3, 6.4, 6.5, 6.6 in Section 1, DR 2 (BP-2) and DR 7 (SBM-3) in Section 2, DR E1-1, DR E1-2 and DR E6 in Section 4 and DR S1-9 in Section 5 as well as Appendix C of Section 1.

3. Double materiality as the basis for sustainability disclosures

29. The undertaking shall report on ***sustainability matters*** based on the ***double materiality*** principle as defined and explained in this chapter.

3.1 Stakeholders and their relevance to the materiality assessment process

30. ***Stakeholders*** are those who can affect or can be affected by the undertaking. There are two main groups of stakeholders:

    (a) affected ***stakeholders***: individuals or groups of individuals whose interests are affected or could be affected – whether positively or negatively – by the undertaking's activities and its direct and indirect ***business relationships*** across its value chain, and

    (b) users of ***sustainability statement***: 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, the civil society and non-governmental organisations, governments, analysts and academics.

31. Some, but not all, ***stakeholders*** may belong to both groups defined in paragraph 30.

32. To the extent that an undertaking engages with affected ***stakeholders***, engagement with them supports the undertaking's sustainability ***materiality*** assessment. This includes its processes for identifying and assessing actual and potential ***impacts***, which then inform the assessment process for the identification of material ***impacts*** for the purposes of sustainability reporting (see Chapter 3.4 of this Section).

3.2 Material matters and materiality of information

33. Performing a ***materiality*** assessment (see chapters 3.4 and 3.5 of this Section) is necessary for the undertaking to identify the material ***impacts*** and ***risks*** that are to be reported. If an undertaking reports on its material positive ***impacts*** and/or ***opportunities*** on a voluntary basis, these are also covered by the materiality assessment.

34. The ***materiality*** assessment is the starting point for sustainability reporting under this [draft] Standard. Disclosure Requirement 9 *(IR-1)* in Section 2 of this [draft] Standard includes general disclosure requirements on the undertaking's process for identifying ***impacts*** and ***risks*** (and opportunities) and assessing their materiality. Disclosure Requirement 7 *(SMB-3)* of Section 2 provides general disclosure requirements on the material ***impacts*** and ***risks*** (and opportunities) resulting from the undertaking's materiality assessment.

35. The Application Requirements laid out in *Appendix A* of this Section, (paragraph AR 22 include the list of ***sustainability*** matters covered in sections 2 to 6 of this [draft] Standard. They are broken down by topics, sub-topics and sub-subtopics to support the ***materiality*** assessment). *Appendix E Flowchart for determining disclosures under ESRS LSME* provides an illustration of the materiality assessment process described in this Section.

36. A sustainability matter is 'material' if it meets the criteria defined for ***impact materiality*** (see chapter 3.4 of this Section) and/or the criteria defined for ***financial materiality*** (see chapter 3.5 of this Section).

37. Irrespective of the outcome of the materiality assessment, as also stated in paragraph 12 of this Section, the undertaking shall always disclose certain information (see Appendix H) required by Section 2 of this [draft] Standard (i.e., all Disclosure Requirements and data points).

38. If, as a result of its ***materiality*** assessment on which IR-1, IR-2 and SBM-3 in Section 2 set disclosures requirements, the undertaking concludes that a sustainability matter is material, it shall:

    (a) disclose information according to the Disclosure Requirements (including Application Requirements) related to that specific sustainability matter in the relevant sections of this [draft] Standard; and

    (b) disclose additional appropriate entity-specific disclosures (see paragraph 15 and AR 1 to AR 7 of this Section) whenever the material sustainability matter is either not covered by this [draft] Standard or is covered with insufficient granularity.

39. Applicable information prescribed within a Disclosure Requirement, including its datapoints, or within an entity-specific disclosure shall be disclosed when the undertaking determines, as part of its assessment of material information, that such information is relevant from at least one of the following perspectives:

    (a) the significance of the information in relation to the matter it purports to depict or explain or

    (b) the capacity of such information to meet users' decision-making needs, including the needs of primary users of general purpose financial reporting described in paragraph 66 and/or the needs of users whose principal interest lies in information about the undertaking's impacts.

40. If the undertaking concludes that climate change is not material and therefore omits all disclosure requirements related to E1 Climate Change, it shall disclose a detailed explanation of the conclusions of its ***materiality*** assessment with regard to climate change (see Section 2 Disclosure Requirement 10 *(IR-2) Disclosure Requirements in ESRS covered by the undertaking's sustainability statement*).

41. If the undertaking concludes that a topic other than climate change is not material and therefore omits all the corresponding Disclosure Requirements in Section 3 or in the metrics Sections (namely sections 4, 5 and 6) of this [draft] Standard, it may briefly explain the conclusions of its materiality assessment for that topic.

42. When reporting on ***policies***, ***actions*** and ***targets*** in relation to a ***sustainability matter*** that has been assessed to be material, the undertaking shall include the information prescribed by the Disclosure Requirements and datapoints defined in Section 3 of this [draft] Standard (see Disclosure Requirement 11 *(IR-3) – Policies and actions in relation to sustainability matters,* and Disclosure Requirement 12 *(IR-4) – Targets in relation to sustainability matters*). The undertaking may omit information prescribed by certain datapoints related to policies, actions and targets, when the circumstances are different from those that would trigger disclosure of that specific datapoint (i.e. because the undertaking has not adopted the respective policies or implemented the respective actions or set the respective targets).

43. When disclosing information on ***metrics*** for a material ***sustainability matter***, the undertaking shall apply the requirements stipulated in Sections 4, 5 and 6 of this [draft] Standard and it:

    (a) shall include the information prescribed by a Disclosure Requirement if it assesses such information to be material;

    (b) may omit the information prescribed by a datapoint of a Disclosure Requirement if it assesses such information to be not material and concludes that such information is not needed in order to meet the objective of the Disclosure Requirement in question; and

    (c) may omit information prescribed by certain datapoints s, when the circumstances are different from those that would trigger disclosure of that specific datapoint.

44. If the undertaking omits the information prescribed by a datapoint derived from other EU legislation listed in *Appendix B* of Section 2 of this [draft] Standard, it shall explicitly state

that the information in question is 'not material' or "not applicable". When disclosing this information on datapoint derived from other EU legislation the undertaking shall define a content index as described in DR 10 IR-2 in Section 2.

45. The undertaking shall establish how it applies qualitative or quantitative criteria, including appropriate thresholds, to determine:

    (a) the information that is to be disclosed on metrics for a material sustainability matter and

    (b) the information that is to be disclosed as entity-specific disclosures.

3.3. Double materiality

46. ***Double materiality*** has two dimensions, namely ***impact materiality*** and ***financial materiality***. Unless otherwise specified, the terms 'material' and 'materiality' used throughout this [draft] Standard refer to ***double materiality***.

47. ***Impact materiality*** and ***financial materiality*** assessments are interrelated, and the interdependencies between these two dimensions shall be considered.

48. When identifying and assessing the ***impacts*** and ***risks*** (and opportunities) that may occur in the undertaking's ***value chain*** in order to determine their ***materiality***, the undertaking shall focus on areas where they are deemed likely to arise based on the nature of the activities, business relationships, geographies and other relevant risk factors.

49. Impact materiality covers impacts associated with direct relationships (such as subsidiaries, suppliers, clients, etc.) or those further up/downstream.

50. The undertaking shall consider how it is exposed to material risks as a result of its dependencies (if any) on the availability of natural human and social resources at appropriate prices and quality.

51. An undertaking's principal ***impacts*** and ***risks*** (and opportunities) are understood to be the same as the material impacts and risks (and opportunities) identified with the ***double materiality*** principle and therefore reported in its ***sustainability statement***.

52. The undertaking shall apply the criteria set under chapters 3.4 and 3.5 in this section of this [draft] Standard using appropriate quantitative and/or qualitative thresholds. Appropriate thresholds are necessary to determine which ***impacts*** and ***risks*** (and opportunities) are identified as material and addressed by the undertaking and to determine which ***sustainability matters*** are material for reporting purposes. Some existing standards and frameworks use the term 'most significant impacts' when referring to the threshold used to identify the impacts described in this [draft] Standard as 'material impacts'.

3.4 Impact materiality

53. From the impact perspective, a sustainability matter is to be reported on when it gives rise to material impacts. In this context, impacts include:

    (a) actual or potential impacts on people or on the environment over the short, medium, and long-term time horizons; and

    (b) impacts connected to the undertaking's own business operations, products and services as well as through its business relationships, such as those that arise from the operations of suppliers

54. 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- or long-term. Impacts include those connected to the undertaking's own operations and to its upstream and downstream value chain, including through its products and services as well as through its business relationships. ***Business relationships***

include those in the undertaking's upstream and downstream ***value chain*** (including subsidiaries, as specified in paragraph 64 of this section) and are not limited to direct contractual relationships.

55. In the context of this [draft] Standard, impacts on people or the environment include impacts in relation to environmental, social and governance matters.

56. 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 the following factors:

    (a) the scale;

    (b) scope; and

    (c) irremediable character of the impact.

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

57. If an undertaking asses its positive impacts on a voluntary basis (as defined in paragraph 8), the materiality is based on:

    (a) the scale and scope of the impact for actual impacts; and

    (b) the scale scope and likelihood of the impact for potential impacts.

3.5 Financial materiality

58. The scope of ***financial materiality*** for sustainability reporting results from the expansion of the scope of materiality used for determining which information should be included in the undertaking's financial statements.

59. The ***financial materiality*** assessment corresponds to the identification of information that is considered material for primary users of general-purpose financial reporting in making decisions relating to providing resources to the undertaking. In particular, information is considered material for primary users of general-purpose financial reporting if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's ***sustainability statement***.

60. 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*** that have a material influence, or that could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or the cost of capital over the short-, medium- or long-term. ` The ***financial materiality*** of a sustainability matter is not constrained to matters that are within the control of the undertaking but includes information on ***material risks*** (and opportunities) attributable to ***business relationships*** with other undertakings, including its subsidiaries.

61. ***Dependencies*** on natural and social resources can constitute sources of financial ***risks*** (and 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.

62. The ***materiality*** of ***risks*** (and opportunities) is assessed based on a combination of likelihood of occurrence and potential magnitude of the ***financial effects***.

3.7 Level of disaggregation

63. When needed to have a proper understanding of its material ***impacts*** and ***risks*** (and opportunities), the undertaking shall disaggregate the reported information in a way that reflects the appropriate level at which significant variations of material impacts and/or risks materialise, such as in specific sectors, countries or sites. When defining the appropriate level of disaggregation for reporting, the undertaking shall consider the disaggregation adopted in its materiality assessment.

64. Where data from different levels, or multiple locations within a level, is aggregated, the undertaking shall ensure that this aggregation does not obscure the specificity and context necessary to interpret the information. The undertaking shall not aggregate material items that differ in nature.

4. Value chain

4.1 Reporting undertaking and value chain

65. The sustainability statement shall be for the same reporting undertaking as the financial statements. For subsidiaries, refer to paragraph 66 below.

66. The information about the reporting undertaking provided in the ***sustainability statement*** shall be extended to include information on the material ***impacts*** and ***risks*** (and opportunities) connected to the undertaking through its ***business relationships*** in the upstream and/or downstream ***value chain*** ('value chain information'), including information on material impacts and risks (and opportunities) associated with its subsidiaries. In particular, the undertaking shall include material impacts and risks (and opportunities) associated with its upstream and downstream value chain(s), including its subsidiaries:

    (a) following the outcome of its ***materiality*** assessment and, if a due diligence process is in place, of its due diligence process;

    (b) in accordance with any specific requirements related to the value chain in this [draft] Standard; and

    (c) when necessary, on an entity specific basis according to paragraph 15 of this section.

67. The provision (see paragraph 61) to include value chain information does not require collecting information on each and every actor in the value chain, but only the inclusion of material value chain information, focusing on value chain parts that are likely to be associated with these material impacts and risks (and opportunities).

68. The undertaking shall include material value chain information when this is necessary to:

    (a) allow users of sustainability statement to understand the undertaking's material impacts and risks (and opportunities); and/or

    (b) produce a set of information that meets the qualitative characteristics of information (see chapter 2 of this Section).

69. When determining at which level within its own operations and upstream and downstream value chain does a material sustainability matter arise, the undertaking shall use its assessment of ***impacts*** and ***risks*** (and opportunities) following the ***double materiality*** principle (see chapter 3 of this section of this [draft] Standard).

70. If subsidiaries, associates or joint ventures are part of the undertaking's value chain (as specified in paragraph 61 of this section) – for example, as suppliers – and when the undertaking is connected with material ***impacts*** and ***risks*** (and opportunities) through its business relationships with them, the undertaking shall include information related to those subsidiaries, associates or joint ventures following paragraph 66 in accordance with the approach adopted for the other ***business relationships*** in the value chain. In this case,

when determining impact ***metrics***, the data of the subsidiaries, associate or joint venture are not limited to the share of equity held but taken into account on the basis of the impacts that are connected with the undertaking's products and services through its business relationships.

4.2 Estimation using sector averages and proxies

71. The undertaking's ability to obtain the necessary upstream and downstream ***value chain*** information may vary depending on various factors such as the undertaking's contractual arrangements, the level of control that it exercises on the operations outside the consolidation scope and its buying power. If the undertaking does not have the ability to control the activities of its upstream and/or downstream value chain and its business relationships, obtaining value chain information may be more challenging.

72. There are circumstances where the undertaking cannot collect information about its upstream and downstream ***value chain*** as required by paragraph 61 despite making reasonable efforts to do so. In these circumstances, the undertaking shall estimate the information to be reported about its upstream and downstream value chain by using all reasonable and supportable information such as sector-average data and other proxies.

73. Obtaining ***value chain*** information could be particularly challenging for an LSME if its upstream and/or downstream value chain entities are not in the scope of the CSRD, as the LSME may have less control over its value chain and fewer resources to collect data.

74. The undertaking may rely on and refer to information contained in the ESRS sustainability statement of an actor in its value chain when such an actor publishes mandatory ESRS sustainability statement, if that statement contains the information needed in the preparation of the undertaking`s ESRS sustainability statement. If an ***actor in the value chain*** that does not prepare the mandatory ESRS sustainability statement nevertheless publishes sustainability information according to other standards or frameworks (such as any voluntary standard issued in the EU [VSME] or GRI Standards, or IFRS Sustainability Disclosures Standards, or EMAS), the undertaking may rely on and refer to information contained in that sustainability statement or in another document, if based on the undertaking's management's judgement, such information meet the qualitative characteristics of information specified in chapter 2 of this Section. If there are clear indications that material impacts and risks (and opportunities) are not addressed appropriately in this sustainability statement or if the information disclosed do not meet the aforementioned qualitative characteristics of information, then further work on the specific impacts and risks (and opportunities) in the value chain may be needed.

75. When the undertaking includes value chain information in its metrics, in many cases and in particular for environmental matters in which proxies are available, the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its upstream and downstream value chain, for example, when calculating the undertaking's ***GHG Scope 3 emissions***.

76. The incorporation of estimates made using sector-average data or other proxies shall not result in information that does not meet the qualitative characteristics of information (see Chapter 2 and Chapter 6.2 *Sources of estimation and outcome uncertainty* of this Section).

77. With reference to ***policies*** and ***actions***, the undertaking's reporting shall include upstream and/or downstream ***value chain*** (including subsidiaries, as specified in paragraph 61 of this section) information to the extent that those policies and actions involve ***actors in the value chain***.

78. If the undertaking has set targets and reports on them, it shall include upstream and/or downstream value chain (including subsidiaries, as specified in paragraph 65 of this section) information to the extent that those targets involve actors in the value chain.

5. Time horizons

79. The reporting period for the undertaking's ***sustainability statement*** shall be consistent with that of its financial statements.

80. Whenever relevant, the undertaking shall establish appropriate linkages in its ***sustainability statement*** between retrospective and forward-looking information to foster a clear understanding of how historical information relates to future-oriented information.

81. When preparing its individual ***sustainability statement***, the undertaking shall adopt the following time horizons:

    (a) for the short-term time horizon, one year (in line with the period adopted by the undertaking for its financial statements);

    (b) for the medium-term time horizon, from two to five years; and

    (c) for the long-term time horizon, more than five years.

82. The undertaking shall use an additional breakdown for the long-term time horizon when ***impacts*** or ***actions*** are expected in a period longer than five years, if necessary, to provide relevant information to users of ***sustainability statement***.

83. If different definitions of medium- or long-term time horizons are required for specific items of disclosure in this [draft] Standard, those definitions shall prevail.

84. There may be circumstances where the use of the medium- or long-term time horizons outlined in paragraph 80 results in non-relevant information, as the undertaking uses a different definition for (i) its processes of identification and management of material **impacts** and **risks** (and opportunities) or for (ii) the definition of its ***actions***. These circumstances may be due to industry-specific characteristics such as cash flow and business cycles, the expected duration of capital investments, the time horizons over which the users of ***sustainability statement*** conduct their assessments, and the planning horizons typically used in the undertaking's industry for decision-making. In these circumstances, the undertaking may adopt a different definition of medium- and/or long-term time horizons (see Section 2 Disclosure Requirement 2 *(BP-2)* paragraph 6).

85. References to 'short-term', 'medium-term', and 'long-term' in this [draft] Standard refer to time horizon as determined by the undertaking according to the provisions in paragraphs 80 to 83.

6. Preparation and presentation of sustainability information

86. This chapter provides general requirements to be met when preparing and presenting sustainability information.

6.1 Presenting comparative information

87. The undertaking shall disclose comparative information in respect of the previous period for all quantitative ***metrics*** and monetary amounts disclosed in the current period. When relevant to an understanding of the current period's ***sustainability statement***, the undertaking shall also disclose comparative information for narrative sustainability disclosures.

88. If the undertaking reports comparative information that differs from the information reported in the previous period, when possible with a reasonable effort, it shall disclose:

    (a) the difference between the figure reported in the previous period and the revised comparative figure; and

    (b) the reasons for the revision of the figure.

89. When it is not possible with a reasonable effort to adjust comparative information for one or more prior periods, the undertaking shall disclose this fact.

90. When a specific disclosure requirement of this [draft] Standard requires the undertaking to present more than one comparative period for a metric or datapoint, that requirements shall prevail.

6.2 Sources of estimation and outcome uncertainty

91. When quantitative ***metrics*** and monetary amounts, including upstream and downstream ***value chain*** information (see Chapter 4 of this Section), cannot be measured directly and can only be estimated, measurement uncertainty may arise.

92. The undertaking shall disclose information to help users understand the most significant uncertainties affecting the quantitative metrics and monetary amounts reported in its sustainability statement.

93. Even a high level of measurement uncertainty would neither necessarily prevent such an assumption or estimate from yielding useful information nor from meeting the qualitative characteristics of information (see chapter 2 of this section).

94. Data and assumptions used in preparing the ***sustainability statement*** shall be consistent to the largest extent possible with the corresponding financial data and assumptions used in the undertaking's financial statements.

95. Some sections of this [draft] Standard require the disclosure of information, such as explanations about possible future events that have uncertain outcomes. In judging whether information about such possible future events is material, the undertaking shall refer to the criteria set in Chapter 3 of this section and consider:

    (a) the potential financial effects of the events (i.e., the possible outcome) in terms of amount and likelihood; and

    (b) the severity and likelihood of the impacts on people or the environment resulting from the possible future events, taking into account the factors of severity specified in paragraph 56.

6.3 Updating disclosures about events after the end of the reporting period

96. In some cases, the undertaking may receive information after the reporting period but before the management report is approved for issuance. If such information provides evidence or insights about conditions existing at period end, the undertaking shall update estimates and sustainability disclosures, in light of the new information, if the provision of updated estimates and disclosures is possible with reasonable effort. If this is not possible with reasonable effort, the undertaking shall provide narrative information describing the conditions existing at period end and the possible implications on the sustainability statement.

6.4 Changes in preparation or presentation of sustainability information

97. The definition and calculation of ***metrics***, including metrics used to set ***targets*** and monitor progress towards them shall be consistent over time (only in case targets have been specifically set by the undertaking). Unless it is not possible with a reasonable effort to do so, the undertaking shall provide restated comparative figures (see Section 2 Disclosure Requirement 2 *(BP-2)*) when it has:

    (a) redefined or replaced a metric or target or else; and

    (b) identified new information in relation to the estimated figures disclosed in the preceding period, and the new information provides evidence of circumstances that existed in that period.

6.5 Reporting errors in prior periods

98. The undertaking shall correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is not possible with a reasonable effort to do so. This requirement does not extend to reporting periods before the first year of application of ESRS LSME by the undertaking.

99. Prior period errors are omissions from, and misstatements in, the undertaking's ***sustainability statement*** for one or more prior periods. Such errors arise from a failure to use, or from the misuse of, reliable information that:

    (a) was available when the management report – which includes the sustainability statement for those periods – was authorised for issuance; and

    (b) could reasonably be expected to have been obtained and considered in the preparation of sustainability disclosures included in these reports.

100. Such prior period errors include the effects resulting from mathematical mistakes, mistakes in applying the definitions used for ***metrics***, oversights or misinterpretations of facts, and fraud.

101. Potential errors in a current period discovered in that same period are corrected before the management report is authorised for issuance. However, material errors are sometimes discovered only in a subsequent period.

102. If it is not possible with a reasonable effort to determine the effect of an error on all prior presented periods, the undertaking shall restate the comparative information to correct the error from the earliest practicable date. When correcting disclosures for a prior period, the undertaking shall not use hindsight either in making assumptions about what the management's intentions would have been in a prior period or in estimating the amounts disclosed in a prior period. This requirement applies to correction of both backward-looking and forward-looking disclosures.

103. Corrections of errors are distinguished from changes in estimates. Estimates are to be revised as soon as additional information becomes available (see Section 2 Disclosure Requirement 2 *(BP-2)*).

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

104. The undertaking is not required to disclose ***classified information*** or ***sensitive information*** even if such information is considered material.

105. 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 to meet the objective of a Disclosure Requirement, the undertaking may nevertheless omit that specific piece of information if it:

    (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question:

    (b) has commercial value because it is secret; and

    (c) has been subject to reasonable steps taken by the undertaking to keep it secret.

106. If the undertaking omits ***classified information*** or ***sensitive information*** or a specific piece of information corresponding to intellectual property, know-how or the results of innovation because it meets the previous paragraph's criteria, it shall comply with the disclosure requirement in question by disclosing all other required information.

107. The undertaking shall make reasonable effort to ensure that, beyond the omission of the specific ***classified information*** or ***sensitive information*** or of the specific piece of

information corresponding to intellectual property, know-how or the results of innovation, the overall relevance of the disclosure in question is not impaired.

6.7 Matters in the course of negotiation

108. The undertaking is not required to disclose information related to impending developments or matters in the course of negotiation, even if such information is considered material.

109. This exemption could apply, in exceptional cases, where, in the duly justified opinion of the members of the ***administrative, management and supervisory bodies***, acting within the competences assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking. The exception is applicable provided that the omission does not prevent a fair and balanced understanding of the undertaking's development, performance, and position, and the impact of its activity.

110. If the undertaking decides to omit such information, it shall simply state that is the case, indicating which information / datapoints has been omitted.

7. Structure of the sustainability statement

111. This chapter provides the basis for the presentation of the information about ***sustainability matters*** prepared in compliance with with Articles 19a and 29a of Directive 2013/34/EU (the CSRD) and this [draft] Standard (i.e., ***sustainability statement***) within the undertaking's management report. Such information is presented in a dedicated section of the management report identified as the sustainability statement. Appendix F *Example of structure of ESRS sustainability statement* of this Section provides an illustrative example of a sustainability statement structured according to the requirements laid out in this chapter.

7.1 Content and structure of the sustainability statement

112. Sustainability information shall be presented:

(a) in a way that allows for a distinction between information required by disclosures in this [draft] Standard and other information included in the management report and

(b) under a structure that facilitates access to and understanding of the sustainability statement, both in human and machine-readable formats.

113. Except for the possibility to incorporate information by reference as defined in section 8.1 *Incorporation by reference* of this section, the undertaking shall report all the applicable disclosures (sector-agnostic and entity-specific) required by this [draft] Standard as per chapter 1 of this Section, within a dedicated section of the management report. The undertaking shall present the information in a way that allows for a distinction between information required by disclosures in this [draft] Standard and other information included in the management report (such as information pursuant to Article 8 of Regulation (EU) 2020/852, as specified in the paragraph below).

114. In its ***sustainability statement***, the undertaking shall report the disclosures pursuant to Article 8 of Regulation (EU) 2020/852 of the European Parliament and the Council[4] and Commission Delegated Regulations that specify the content of those disclosures. The undertaking shall ensure that these disclosures are separately identifiable within the sustainability statement. Disclosures related to each of the environmental objectives defined in the Taxonomy Regulation shall be presented together in a clearly identifiable part of the environmental section of the sustainability statement. These disclosures are not

[4] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

subject to the provisions of ESRS LSME with the exception of this paragraph and the first sentence of paragraph 115 of this section.

115. If the undertaking includes in its individual ***sustainability statement*** additional disclosures stemming from *(i)* other legislation – which requires the undertaking to disclose sustainability information – or *(ii)* generally accepted sustainability reporting standards and frameworks – including non-mandatory guidance and sector-specific guidance published by other standard-setting bodies (such as technical material issued by the International Sustainability Standards Board or the Global Reporting Initiative) – such disclosures shall:

(a) be clearly identified with an appropriate reference to the related legislation, standard or framework (see Section 2 Disclosure Requirement 2 (BP-2), paragraph 11); and

(b) meet the requirements set for qualitative characteristics of information specified in chapter 2 Appendix B of this section.

116. The undertaking shall structure its ***sustainability statement*** in four parts in the following order: (i) general information, (ii) environmental information (including disclosures pursuant to Article 8 of Regulation (EU) 2020/852), (iii) social information and (iv) governance information. The undertaking may apply the detailed structure illustrated in *Appendix F* of this section.

117. Where the undertaking develops material entity-specific disclosures, it shall report those disclosures alongside the most relevant disclosures required by this [draft] Standard.

8. Linkages with other parts of corporate reporting and connected information

118. The undertaking shall provide information that enables users of its ***sustainability statement*** to understand the connections between different pieces of information in the statement, and the connections between the information in the sustainability statement and other information that the undertaking discloses in other parts of its corporate reporting.

8.1 Incorporation by reference

119. Provided that the conditions in paragraph 120 are met, information prescribed by a Disclosure Requirement of these [draft] Standard – including a specific datapoint prescribed by it – may be incorporated in the ***sustainability statement*** by reference to:

(a) another section of the management report;

(b) the financial statements;

(c) the corporate governance statement (if it is not part of the management report);

(d) the remuneration report required by Directive 2007/36/EC of the European Parliament and of the Council[5];

(e) the universal registration document as referred to in Article 9 of Regulation 2017/1129[6]; and

(f) public disclosures under Regulation 575/2013 of the European Parliament and of the Council (Pillar 3 disclosures)[7].

[5] Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies (OJ L 184, 14.7.2007, p. 17).
[6] Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (OJ L 168, 30.6.2017, p. 12).
[7] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

If the undertaking incorporates by reference information from Pillar 3 disclosures, it shall ensure that the information matches the reporting scope used for the ***sustainability statement*** by complementing the incorporated information with additional elements as necessary.

120. The undertaking may incorporate information by reference to the documents, or part of the documents, listed in paragraph 119 provided that the disclosures incorporated by reference:

(a) constitute a separate element of information and are clearly identified in the relevant document as addressing the relevant Disclosure Requirement or the relevant specific datapoint prescribed by a Disclosure Requirement;

(b) are published before or at the same time as the management report;

(c) are in the same language as the sustainability statement;

(d) are subject to at least the same level of assurance as the sustainability statement; and

(e) meet the same technical digitalisation requirements as the sustainability statement.

121. Provided that these conditions established in paragraph 115 are met, information prescribed by a Disclosure Requirement of this [draft] Standard – including a specific datapoint prescribed by a Disclosure Requirement – may be incorporated into the ***sustainability statement*** by reference to the undertaking's report prepared according to EU Eco-Management and Audit Scheme (EMAS) Regulation (EU) No. 1221/2009[8]. In this case, the undertaking shall ensure that the information incorporated by reference is produced using the same basis for preparation of ESRS information, including reporting scope and treatment of ***value chain*** information (including subsidiaries, as specified in paragraph 65 of this section).

122. In the preparation of its ***sustainability statement*** using incorporation by reference, the undertaking shall consider the overall cohesiveness of the reported information and ensure that the incorporation by reference does not impair the readability of the sustainability statement. *Appendix F: Example of incorporation by reference* of this [draft] Standard offers an illustrative example of incorporation by reference (See Section 2 Disclosure Requirement 2 *(BP-2)*).

8.2 Connected information and connectivity with financial statements

123. When the undertaking also prepares financial statements and other regulatory reports, the information provided in its sustainability statement following this [draft] Standard:

(a) shall be coherent with what is reported in the financial statements for the same period; and

(b) may be presented in a way that facilitates the understanding of the linkages that exist with the information reported in its financial statements, for example, by using appropriate cross-references or reconciliations.

124. In particular, as this [draft] Standard follows an individual perspective (see paragraph 4 of this section), the undertaking may explain how the monetary amounts presented in its sustainability statement relate to its individual and/or consolidated financial statements.

125. Sections 4 to 6 (on metrics) of this [draft] Standard may define requirements in order to include reconciliations or to illustrate consistency of data and assumptions for specific Disclosure Requirements. In such cases, the requirements in these Sections shall prevail.

[8] Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organisations in a community eco-managemenrt and audit scheme (EMAS), repealing Regulation (EC) No 761/2001 and Commission Decisions 2001/681/EC and 2006/193/EC (OJ L 342, 22.12.2009, p. 1).

9. Transitional provisions

9.1 Transitional provision related to chapter 4: Value chain

126. For the first three years of sustainability reporting under this [draft] Standard, for undertakings that report starting from 2026 and for the first year for undertakings that report starting from 2028, to account for the difficulties that it may encounter when gathering information from actors throughout its **value chain,** the undertaking:

(a) may limit upstream and downstream value chain information to information available in-house when disclosing information on policies, actions and targets in accordance with Section 3 of this [draft] Standard, such as data already available to the undertaking and publicly available information –; and

(b) is not required to include upstream and downstream value chain information when disclosing metrics except for datapoints derived from other EU legislation as listed in section 2 Appendix B.

9.2 Transitional provision related to section 6.1 Presenting comparative information

127. To ease the first-time implementation of this [draft] Standard, the undertaking is not required to disclose the comparative information required by this Section, chapter *6.1 Presenting comparative information,* in the first year of preparation of the ***sustainability statement*** under this [draft] Standard. For disclosure requirements listed in *Appendix C: List of phased-in Disclosure Requirements,* this transitional provision applies with reference to the first year of mandatory application of the phased-in disclosure requirement.

9.3 Transitional provision: List of Disclosure Requirements that are phased-in for this [draft] Standard to year two or subsequent years

128. *Appendix C: List of phased-in Disclosure Requirements* in this section sets phase-in provisions for the Disclosure Requirements or datapoints of Disclosure Requirements in this [draft] Standard, which may be omitted, or which are not applicable in the first year(s) of preparation of the ***sustainability statement*** under this [draft] Standard. The phased-in provisions are applicable starting from the first reporting period of the undertaking that will report using this [draft] standard from 2026 reporting. For undertakings that issue their first sustainability statement according to this [draft] Standard from 2028, the phased-in provisions are reduced by two years. Disclosure requirements or datapoints that are subject to phased-in provisions are marked with the following symbol (Ph-in).

Appendix A: Application Requirements

This appendix is an integral part of this [draft] Standard and has the same authority as the other parts of this [draft] Standard.

Application requirements – Entity-specific disclosures

AR 1. Entity-specific disclosures shall enable ***users*** to understand the undertaking's ***impacts*** and ***risks*** (and opportunities) in relation to environmental, social or governance matters.

AR 2. When developing entity-specific disclosures, the undertaking shall ensure that:

(a) the disclosures meet the qualitative characteristics of information set out in chapter 2 *Qualitative characteristics of information;* and that

(b) its disclosures include, where applicable, all material information related to the reporting areas of governance, strategy, ***impact*** and ***risk*** (and opportunity) management and ***metrics*** and ***targets*** (see section 2 chapters 2 to 4, section 3 DR 11 and DR 12, and the metrics sections of this [draft] Standard).

AR 3. When determining the usefulness of ***metrics*** for inclusion in its entity-specific disclosures, the undertaking shall consider whether:

(a) its chosen performance metrics provide insight into:

i. how effective its practices are in reducing negative outcomes for people and the environment (regarding impacts) and/or

ii. the likelihood that its practices result in ***financial effects*** on the undertaking (regarding ***risks*** and opportunities on a voluntary basis);

(b) the measured outcomes are sufficiently reliable, meaning whether they do not involve an excessive number of assumptions or unknowns that would otherwise render the metrics too arbitrary to constitute a faithful representation; and whether it has provided sufficient contextual information to interpret performance metrics appropriately.

AR 4. When developing its entity-specific disclosures, the undertaking shall carefully consider:

(a) comparability between undertakings while still ensuring relevance of the information provided, recognising that comparability may be limited for entity-specific disclosures; and

(b) comparability over time: consistency of methodologies and disclosures is a key factor for achieving comparability over time.

AR 5. The need for entity-specific disclosures is particularly important for financial undertakings subject to [draft] ESRS LSME as the sustainability matters in these sectors are very specific. These additional disclosures may derive from sustainable finance legislation or generally accepted sustainability reporting standards and frameworks applicable to financial actors, including non-mandatory standards and guidance. Future sector ESRS dedicated to the financial sector will further enhance reporting standards.

AR 6. When developing entity-specific disclosures (which may cover also sector-specific information), the undertaking may need to collect information from an actor in its value chain (see paragraph 15 of this section). In this case, when, after making reasonable efforts, the undertaking cannot collect information directly from the relevant actor, it may rely on indirect sources (sector-average data, sample analyses, market and peer groups data, other proxies, etc.). Estimates and proxies may

currently be the only available solution to collect information in certain cases due to the unreasonable efforts required to collect data. Examples include tier 2 or tier N suppliers; tier 1 suppliers when they are excessively high in number; and customers when they are not end users (e.g., when the undertaking delivers products or services that are further transformed before contributing to the delivery of products and services to the end users).

AR 7. For example, the undertaking has assessed that an actor in its value chain, extracting commodities used as components of the undertaking's products, is associated with a material impact on working conditions, which is, according to a benchmark analysis, relevant impact for the undertaking's sector. This material impact is not sufficiently covered by this [draft] Standard and therefore there is a need to define an entity specific-disclosure. In this case, the undertaking may be able to arrange site audits to collect information directly from its supplier. However, if those actions to obtain primary data and information are not possible after reasonable effort, the undertaking may rely on sector or country data estimating those impacts (e.g., negative impacts on working conditions) in the location of the mining activities.

Application requirements – Double materiality

Stakeholders and their relevance to the materiality assessment process

AR 8. In addition to the categories of ***stakeholder*** listed in paragraph 30, common categories of ***stakeholders*** are ***employees*** and other workers, ***suppliers***, ***consumers***, ***customers***, ***end-users***, local communities and persons in vulnerable situations, and public authorities including regulators, supervisors and central banks.

AR 9. Nature may be considered as a silent ***stakeholder***. In this case, ecological data and data on the conservation of species may support the undertaking's ***materiality*** assessment.

AR 10. If the undertaking has engaged with affected ***stakeholders***, its ***materiality*** assessment is informed by the dialogue with them. The undertaking may engage with affected ***stakeholders*** or their representatives (such as ***employees*** or trade unions), along with users of sustainability reporting and other experts, to provide input or feedback on its conclusions regarding its material ***impacts*** and ***risks*** (and opportunities).

Double materiality

AR 11. In general, for double materiality the starting point is the assessment of impacts, although there may also be ***material risks*** (and ***opportunities***) that are not related to the undertaking's ***impacts***. A sustainability impact may be financially material from inception or become financially material when it could reasonably be expected to affect the undertaking's financial position, financial performance, cash flows, its access to finance or the cost of capital over the short-, medium- or long-term. Impacts are captured by the ***impact materiality*** perspective regardless of whether or not they are financially material.

AR 12. If there is a high number of actors in the ***value chain*** (including subsidiaries, as specified in paragraph 65 of this section), when performing its materiality assessment, the undertaking is not expected to account for each and every one of those individual actors. However, in the first instance it may assess the value chain at a more aggregated level, identifying general areas where the likelihood of material impacts and risks (and opportunities) is the greatest. For example, this could be done by main groups of suppliers depending on their operating contexts and based on the characteristics of the business model and/or based on specific activities, business relationships, geographies or other factors giving rise to the heightened likelihood of adverse impacts and financial risks (see Section 2 IR – *Processes to identify and assess material impacts and risk,* paragraph 49 a). A more granular approach is expected to be applied in case specific sustainability issues are identified – for

instance, due to size/geography or the nature of products/services. In this case, the undertaking is expected to focus on the specific actor(s) involved.

Assessment of impact materiality

AR 13. To the extent that the undertaking adopts content from the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises in its impact management processes, its impact ***materiality*** assessment is informed by the due diligence[9] process. Due diligence is the process by which undertakings identify, prevent, mitigate and account for how they address the actual and potential impacts on people and the environment connected with their business.

AR 14. Impacts connected with the undertaking`s upstream and downstream value chain, may concern direct business relationships (TIER 1 actors, such as suppliers, clients, subsidiaries). However, the undertaking may find itself connected with impacts that occur in more distant parts of the value chain (TIER 2 actors and beyond). This may, for instance, be the case when the undertaking or its direct suppliers are using commodities or components whose production is connected with severe systemic impacts, such as palm oil or coltan. Similarly, the undertaking may be connected with impacts that result from the use of its products, such as oil and gas derived from fossil fuels, plastics. In this case, it may be involved with microplastics pollution, cigarettes, or pesticides.

AR 15. In assessing ***impact materiality*** and determining the material matters that are to be reported, the undertaking shall consider the following three steps:

(a) understanding the context in relation to its impacts including its activities, business relationships (including subsidiaries, as specified in paragraph 65 of this section) and ***stakeholders***;

(b) identifying actual and potential impacts by engaging with relevant ***stakeholders*** and experts. In this step, the undertaking may rely on scientific and analytical research on impacts on ***sustainability matters***; and

(c) assessing the materiality of its actual and potential impacts and determining the matters that are material. In this step, the undertaking shall adopt thresholds to determine which of the impacts will be covered in its ***sustainability statement.***

Characteristics of severity

AR 16. Severity is determined by the following factors:

(a) scale: how grave the negative impact is on people or the environment;

(b) scope: how widespread the negative impacts are. In the case of environmental impacts, the scope may be understood as the extent of environmental damage or a geographical perimeter. In the case of impacts on people, the scope may be understood as the number of people adversely affected; and

(c) irremediable character: whether and to what extent the negative impacts could be remediated, i.e., by restoring the environment or affected people to their prior state.

AR 17. Any one of these three characteristics (scale, scope and irremediable character) can render a negative impact severe. In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

Impacts connected with the undertaking

AR 18. Consider the following cases by way of illustration:

(a) if the cobalt in the undertaking's products has been mined using ***child labour***, the negative impact (i.e., ***child labour***) is connected with the undertaking's products

[9] This process is described in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

through the tiers of ***business relationships*** in its upstream ***value chain***. These relationships include the smelter and minerals trader as well as the mining enterprise that uses ***child labour***; and

(b) if the undertaking provides financial loans to an enterprise for business activities which, in breach of agreed standards, result in the contamination of water and land surrounding the operations, this negative impact is then connected to the undertaking through its relationship with the enterprise that it provides the loans to.

Assessment of financial materiality

AR 19. The following are examples of how impacts and ***dependencies*** constitute sources of ***risks*** (or opportunities):

(a) when the undertaking's ***business model*** depends on a natural resource – for example, water – it is likely to be affected by changes in the quality, availability and pricing of that resource;

(b) when the undertaking's activities result in negative impacts on, e.g., local communities, the activities could become subject to stricter government regulation, and/or the impact could trigger consequences of a reputational nature. These have negative effects on the undertaking's brand, and higher recruitment costs might arise; and

(c) when the undertaking's business partners face material ***sustainability-related risks***, the undertaking could be exposed to related consequences as well.

AR 20. The identification of ***risks*** (and opportunities) that affect, or could reasonably be expected to affect, the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term is the starting point for the ***financial materiality*** assessment. In this context, the undertaking shall consider:

(a) the existence of ***dependencies*** from natural and social resources as sources of ***financial effects*** (see paragraph 61 of this section); and

(b) their classification as sources of risks (contributing to negative deviation in future expected cash inflows, or increase in deviation in future expected cash outflows and/or negative deviation from an expected change in capitals not recognised in the financial statements).

If the undertaking reports on opportunities on a voluntary basis, it shall consider them as contributing to positive deviation in future expected cash inflows or decrease in deviation in future cash outflows and/or positive deviation from expected change in capitals not recognised in financial statements.

AR 21. Once the undertaking has identified its ***risks*** (and opportunities), it shall determine which of them are material for reporting purposes. This shall be based on a combination of *(i)* the likelihood of occurrence and *(ii)* the potential magnitude of ***financial effects*** determined on the basis of appropriate thresholds. In this step, it shall consider the contribution of those risks to financial effects in the short-, medium- and long-term based on

(a) ***scenarios***/forecasts that are deemed likely to materialise; and

(b) potential financial effects related to ***sustainability matters*** deriving either from situations with a below the "more-likely-than-not" threshold or assets/liabilities not (or not yet) reflected in financial statements. This includes:

i. potential situations that, following the occurrence of future events, may affect cash flow generation potential;

ii. capitals that are not recognised as assets from an accounting and financial reporting perspective but that have a significant influence on financial performance, such as natural, intellectual (organisational), human, social and relationship capitals; and

iii. possible future events that may influence the evolution of such capitals.

Sustainability matters to be included in the materiality assessment

AR 22. When performing its ***materiality*** assessment, the undertaking shall consider the following list of ***sustainability matters*** (topic, sub-topic and sub-sub-topic) covered in this [draft] Standard. If, as a result of the undertaking's materiality assessment (see Section 2 Disclosure Requirement 9 *(IR-1)*), a given sustainability matter in this list is assessed to be material, the undertaking shall report on it according to the corresponding Disclosure Requirements. Using this list is not a substitute for the process of determining material matters. This list is only meant to serve as a tool to support the undertaking's materiality assessment. The undertaking still needs to consider its own specific circumstances when determining its material matters. Where necessary according to paragraph 15, the undertaking shall also develop entity-specific disclosures on material ***impacts*** and ***risks*** not covered in this [draft] Standard.

[Draft] ESRS LSME	**Sustainability matters covered in [draft] ESRS LSME**		
	Topic	**Sub-topic**	**Sub-subtopics**
Sections 3 and 4	Climate change[10]	• Climate change adaptation • Climate change mitigation • Energy	
Sections 3 and 4	Pollution	• Pollution of air • Pollution of water • Pollution of soil • Pollution of living organisms and food resources • Substances of concern • Subtances of very high concern • Microplastics	
Sections 3 and 4	Water and marine resources	• Water • Marine resources	• Water consumption • Water withdrawals • Water discharges • Water discharges in the oceans • Extraction and use of marine resources
Sections 3 and 4	Biodiversity and ecosystems	• Direct impact drivers of biodiversity loss	• Climate Change • Land-use change, fresh water-use change and sea-use change • Direct exploitation • Invasive alien species • Pollution • Others
		• Impacts on the state of species	Examples: • Species population size • Species global extinction risk
		• Impacts on the extent and condition of ecosystems	Examples: • Land degradation • Desertification • Soil sealing
		• Impacts and dependencies on ecosystem services	
Sections 3 and 4	Circular economy	• Resources inflows, including resource use • Resource outflows related to products and services • Waste	
Sections 3 and 5	Own workforce	• Working conditions	• Secure employment • Working time

[Draft] ESRS LSME	Sustainability matters covered in [draft] ESRS LSME		
			• Adequate wages • Social dialogue • Freedom of association, the existence of works councils and the information, 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	• 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	• Child labour • Forced labour • Adequate housing • Privacy
Sections 3 and 5	Workers in the value chain	• Working conditions	• 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	• Gender equality and equal pay for work of equal value • Training and skills development • The employment and inclusion of persons with disabilities

[10] The undertaking shall include all the information prescribed in ESRS E1 regardless of the outcome of the materiality assessment.

[Draft] ESRS LSME	Sustainability matters covered in [draft] ESRS LSME		
			• Measures against violence and harassment in the workplace • Diversity
		• Other work-related rights	• Child labour • Forced labour • Adequate housing • Water and sanitation • Privacy
Sections 3 and 5	Affected communities	• Communities' economic, social and cultural rights	• Adequate housing • Adequate food • Water and sanitation • Land-related impacts • Security-related impacts
		• Communities' civil and political rights	• Freedom of expression • Freedom of assembly • Impacts on human rights advocates
		• Rights of indigenous communities	• Free, prior and informed consent • Self-determination • Cultural rights
Sections 3 and 5	Consumers and end-users	• Information-related impacts for consumers and/or end-users	• Privacy • Freedom of expression • Access to (quality) information
		• Personal safety of consumers and/or end-users	• Health and safety • Security of a person • Protection of children
		• Social inclusion of consumers and/or end-users	• Non-discrimination • Access to products and services • Responsible marketing practices
Sections 3 and 6	Business conduct	• Corporate culture • Protection of whistle-blowers • Animal welfare • Political engagement • Management of relationships with suppliers including payment practices	
		• Corruption and bribery	• Prevention and detection, including training • Incidents

Level of disaggregation

AR 23. Considering the lower complexity of the undertakings in the scope of this [draft] standard compared to large undertakings, disaggregation of impacts and risks is oftentimes not needed. A disaggregation is needed, as required by paragraph 63 in this section, when, for example:

(a) an undertaking operates in two different sectors, road transport and IT, with different impacts and risks. In this case the undertaking shall disaggregate them by these two sectors to better contextualise its impacts and risks and allow a better understanding of them.

(b) an undertaking operates in different countries with significant variations in terms of impacts and risks due to a different context (i.e. different environmental or social conditions, different legislative regime, etc.). In this case the undertaking shall disaggregate them by countries to better contextualise its impacts and risks and allow a better understanding of them; and

(c) an undertaking operates in different sites with associated impacts or risks highly dependent on the specific location of the sites (such as different social or environmental conditions) or an a particular asset utilised in that particular site. In this case the undertaking shall disaggregate them by sites to better contextualise its impacts and risks and allow a better understanding of them.

Application requirements – Reporting undertaking and value chain

AR 24. When assessing material impacts and risks (and opportunities) connected with its business relationships, all material impacts and risks (both could be related to direct and/or indirect business relationships across upstream and downstream value chain) are to be considered. Where reporting undertakings have a large number of business relationships in their value chains it may identify general areas where impacts and risks are severe and / or likely, recalling that in the case of a potential negative human rights impact, the severity takes precedence over its likelihood. For example:

(a) high risk impact areas whether due to operating contexts, involvement with particularly high risk operations, products or services or other relevant considerations which likely heighten the exposure to severe actual and potential impacts (therefore generating connections to impacts on people and/or environment, which can in turn be sources of risks and opportunities); or

(b) those actors with respect to whom the business model of the undertaking shows key dependencies in terms of products or services (therefore generating risks and opportunities for the undertaking).

AR 25. To illustrate the approach in relation to subsidiaries (as defined in paragraph 65), consider an LSME (which is a financial holding) parent company of a small / medium group (as defined in the Accounting Directive) with two subsidiaries: subsidiary “A” is active in the transport sector and subsidiary “B” is active in the real estate sector. In this case, the LSME, based on the knowledge of the risks and impacts potentially associated with its subsidiaries, has decided to include those in its materiality assessment. The results of this assessment indicated that the two subsidiaries are associated with two material impacts (not directly associated with the LSME own operations which are mainly administrative and financial activities). In particular:

(a) subsidiary “A”: due to its activity in the transport sector is associated with a material impact on working conditions of its drivers (i.e. driver fatigue, working time, etc)

(b) subsidiary “B”: due to its activity in the real estate sector is associated with a material impact on energy consumption related to the buildings it managed.

Therefore, considering these results, the LSME shall also disclose in its sustainability statement the relevant information associated with subsidiary “A” and subsidiary "B” material impacts.

AR 26. The undertaking, when material risks and impacts (and opportunities) are associated with its subsidiaries, may disclose the related information separately, as a sub-total, indicating to which subsidiary the information pertains. For instance, considering the above example, the undertaking shall disclose the total energy consumption (LSME and subsidiary B) and may indicate separately the amount pertaining to subsidiary “B”, as illustrated below[11]:

Energy consumption and mix	**Year N**
(1) Non-renewable energy consumption (MWh)	160
- of which associated to subsidiaries	*140*
(2) Consumption from renewable sources (MWh)	200
- of which associated to subsidiaries	*180*
Total energy consumption (MWh)	360
- of which associated to subsidiaries	*320*

AR 27. To illustrate the approach included in paragraph 66 of this section, consider an undertaking, P, that produces chairs with wood sourced from another undertaking that is classified as an associate (E) for financial reporting. P holds an equity share in E of 30%. P buys 10 tons of wood from E to produce its chairs. P will treat E in the same way as any other supplier when considering the impacts connected with the wood purchased from E. Therefore, in this case, the impacts are related to the 10 tons of wood purchased rather than estimating its impacts by using its equity share in E.

4.2 Application requirements – Estimation using sector averages and proxies

AR 28. When, as required by paragraph 65 of this section, collecting ***value chain*** information is not possible with a reasonable effort, the undertaking shall estimate the information to be reported using all reasonable and supportable information. This includes, but is not limited to, internal and external information such as data from indirect sources, sector-average data, sample analyses, market and peer groups data, other proxies or spend-based data.

AR 29. When the undertaking has a large number of actors in its upstream or downstream ***value chain*** (including subsidiaries), it may not be able after making a reasonable effort to collect direct data from them when such data are either indispensable input to the materiality assessment (see paragraph 48 of this section) or information necessary in order to prepare disclosures which include value chain information (see paragraph 65 of this section). In this case, the undertaking will use proxies or sector data under the provisions of *BP-2 – Disclosures in relation to specific circumstances*.

[11] The undertaking may disclose this information in more granularity. For instance, grouping by sector or further breakdowns of information on subsidiaries.

AR 30. Subject to the provisions set out in the Disclosure Requirements of this [draft] Standard, the undertaking is expected to provide explanations of its efforts if such efforts are in place (and of the extent of the effectiveness of such efforts) to influence the practices of the actors in its upstream and downstream ***value chain*** (such as developing products that are maximally recyclable and proposing to ***consumers*** or ***end-users***) and to contribute to the elaboration of proxies or sector data.

AR 31. When extending the information about the reporting undertaking to include ***value chain*** information, in accordance with paragraph 61, the elements of the value chain with material ***impacts*** and risks are reported on. For instance, based on the materiality assessment, the undertaking may consider the matters working conditions and ***affected communities*** to be material for a group of farmers, while the CO2 ***emissions*** may be considered material in other parts of the value chain.

Appendix B: Qualitative characteristics of information

This appendix is an integral part of this Section of this [draft] Standard and has the same authority as the other parts of the [draft] Standard.

This appendix defines the qualitative characteristics that the information presented in **sustainability statement** prepared according to this [draft] Standard shall meet.

Relevance

QC1. 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).

QC2. 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. 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.

QC3. Information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

QC4. 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 Section).

Faithful representation

QC5. 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.

QC6. A complete depiction of an ***impact***, a risk (or an ***opportunity*** on a voluntary basis) includes all material information necessary for the users to understand that ***impact***, ***risk*** or ***opportunity***. This includes how the undertaking has adapted its strategy, risk management and governance in response to that ***impact***, risk (or ***opportunity*** on a voluntary basis), as well as the ***metrics*** identified to set ***targets*** and measure performance.

QC7. A neutral depiction is without bias in its selection or disclosure of information. Information is neutral if it is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that the users will receive that information favourably or unfavourably. Both negative and positive material impacts from an ***impact materiality*** perspective as well as **material *risks*** (and ***opportunities***) from a ***financial materiality*** perspective shall receive equal attention. It shall be balanced, so as to cover favourable/positive and unfavourable/negative aspects. Any aspirational sustainability information, for example ***targets*** or plans shall cover both aspirations and factors that could prevent the undertaking from achieving these aspirations in order to have a neutral depiction.

QC8. Neutrality is supported by the exercise of prudence which is the exercise of caution when making judgements under conditions of uncertainty. Information shall not be netted or compensated to be neutral. The exercise of prudence means that opportunities are not overstated and risks are not understated. Equally, the exercise of prudence does not allow for the overstatement of risks (or the understatement of opportunities disclosed on a voluntary basis). The undertaking may present net information, in addition to gross value, if such presentation does not obscure relevant information and includes a clear explanation about the effects of the netting and the reasons for the netting.

QC9. Information can be accurate without being perfectly precise in all respects. Accurate information implies that the undertaking has implemented adequate processes and internal controls to avoid material errors or material misstatements. As such, estimates

shall be presented with a clear emphasis on their possible limitations and associated uncertainty (see chapter 6.2 of this Section). The amount of precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses. For example, accuracy requires that:

a) factual information is free from material error;

b) descriptions are precise;

c) estimates, approximations and forecasts are clearly identified as such;

d) no material errors have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable;

e) assertions are reasonable and based on information of sufficient quality and quantity; and

f) information about judgements about the future faithfully reflects both those judgements and the information on which they are based.

Comparability

QC10. Sustainability information is comparable when it can be compared with information provided by the undertaking 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.

QC11. Consistency is related to, but is not the same as, comparability. Consistency refers to the use of the same approaches or methods for the same sustainability matter, from period to period by the undertaking and other undertakings. Consistency helps to achieve the goal of comparability.

QC12. Comparability is not uniformity. For information to be comparable, like components shall look alike and different components shall look different. Comparability of sustainability information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

Verifiability

QC13. Verifiability helps to give users confidence that information is complete, neutral and accurate. Sustainability information is verifiable if it is possible to corroborate either such information itself or the inputs used to derive it.

QC14. 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, for example:

(c) including information that can be corroborated by comparing it with other information available to users about the undertaking’s business, about other businesses or about the external environment;

(d) providing information about inputs and methods of calculation used to produce estimates or approximations; and

(e) providing information reviewed and agreed by the ***administrative, management and supervisory bodies*** or their committees.

QC15. Some sustainability information will be in the form of explanations or forward-looking information. Those disclosures can be supportable by faithfully representing on a factual basis for example the strategies, plans and risk analyses of the undertaking. To help users decide whether to use such information, the undertaking shall describe the underlying assumptions and methods of producing the information, as well as other

factors that provide evidence that verify that it reflects the actual plans or decisions made by the undertaking.

Understandability

QC16. Sustainability information is understandable when it is clear, and concise. Understandable information enables any reasonable knowledgeable user to readily comprehend the information being communicated.

QC17. For sustainability disclosures to be concise, they need to (a) avoid generic "boilerplate" information, which is not specific to the undertaking; (b) avoid unnecessary duplication of information, including information also provided in financial statements; and (c) use clear language and well-structured sentences and paragraphs. Concise disclosures shall only include material information. Complementary information presented pursuant to paragraph 111 shall be provided in a way that avoids obscuring material information.

QC18. Clarity might be enhanced by distinguishing information about developments in the reporting period from "standing" information that remains relatively unchanged, from one period to the next. This can be done for example, by separately describing features of the undertaking's sustainability-related governance and risk management processes that have changed since the previous reporting period compared to those that remain unchanged.

QC19. The completeness, clarity and comparability of sustainability disclosures all rely on information being presented as a coherent whole. For sustainability disclosures to be coherent, they shall be presented in a way that explains the context and the relationships between the related information. Coherence also requires the undertaking to provide information in a way that allows users to relate information about its ***sustainability-related impacts, risks*** (and ***opportunities*** on a voluntary basis) to information in the undertaking's financial statements.

QC20. If ***sustainability-related risks*** (and ***opportunities*** on a voluntary basis) discussed in the financial statements have implications for sustainability reporting, the undertaking shall include in the ***sustainability statement*** the information necessary for users to assess those implications and present appropriate links to the financial statements (see chapter 8 of this Section). The level of information, granularity and technicality shall be aligned with the needs and expectations of users. Abbreviations shall be avoided and the units of measure shall be defined and disclosed.

Appendix C: List of phased-in Disclosure Requirements

This appendix is an integral part of this [draft] Standard and has the same authority as the other parts of the Standard. It should be read in conjunction with Section 2 of this [draft] Standard paragraph 15 "*Use of phase-In provisions in accordance with Appendix B of Section 1*". Disclosure requirements or datapoints that are subject to phased-in provisions are marked with the following symbols:

(a) "Ph-in 1" : Ph-in 1 possible omission for the first year of preparation of the undertaking`s sustainability statement;

(b) "Ph-in 2": Ph-in 2 possible omission for the two years of preparation of the undertaking`s sustainability statement; and

(c) "Ph-in 3": Ph-in 3 possible omission for the two years of preparation of the undertaking`s sustainability statement.

If the phased-in provision depends on not exceeding the average number of 500 employees, at the above symbols is added "500" (i.e. "Ph-in 1 - 500"). Ph-in 1 - 500

If an undertaking opts-out for the period defined in CSRD article 19 a) 7[12], it may benefit from phase-in periods for the remaining years while the phase-in is still applicable. For instance, if an undertaking opts-out only for one year and is issuing its first sustainability report for financial year 2027 (instead of 2026), then it may benefit of phase-ins for the remaining years:

(a) in the case of phase-ins applicable for two years, it may benefit for the remaining one year; and

(b) in the case of phase-ins applicable for three years, it may benefit for the remaining two years.

[12] For financial years starting before 1 January 2028, by way of derogation from paragraph 1 of this Article, small and medium-sized undertakings which are public-interest entities as defined in point (a) of point (1) of Article 2 may decide not to include in their management report the information referred to in paragraph 1 of this Article. In such cases, the undertaking shall, nevertheless, briefly state in its management report why the sustainability reporting was not provided.

Phase-ins applicable for one year

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
	DR-7	Material impacts, risks and opportunities and their interaction with strategy and business model	The undertaking may omit the information prescribed by Section 2 Disclosure Requirement 7 (*SBM-3*) paragraph 28 (c) (anticipated financial effects) for the first year of preparation of its sustainability statement.
	E1-2	Gross Scopes 1, 2, 3 and total GHG emissions	Undertakings not exceeding on their balance sheet dates the average number of 500 employees during the financial year may omit the datapoints on Scope 3 emissions and total GHG emissions for the first year of preparation of their sustainability statement.
Section 4	E6	Anticipated financial effects from material environmental-related matters (other than climate change).	The undertaking may omit the information prescribed by E6 for the first year of preparation of its sustainability statement.
Section 5	All disclosure requirements related to own workforce	All disclosure requirements related to own workforce	Undertakings exceeding on their balance sheet dates the average number of 500 employees during the financial year may omit the information specified in the disclosure requirements related to own workforce for the first year of preparation of their sustainability statement.
Section 5	S1-2	Characteristics of non-employee workers in the undertaking's own workforce	The undertaking may omit reporting for all datapoints in this Disclosure Requirement for the first year of preparation of its sustainability statement.
Section 5	S1-6	Training metrics	The undertaking may omit the information required under this Disclosure Requirement for the first year of preparation of its sustainability statement.

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
Section 5	S1-7	Health and safety metrics	The undertaking may omit the data points on cases of work-related ill-health issues and on the number of days lost to injuries, accidents, fatalities and work-related health issues for the first year of preparation of its sustainability statement.
Section 5	S1-7	Health and safety metrics	The undertaking may omit reporting on non-employees for the first year of preparation of its sustainability statement.
Section 5	S1-10	Diversity metrics	The undertaking may omit the data point on percentage of employees with disabilities required in paragraph 31 (b) of this Disclosure Requirement for the first year of preparation of its sustainability statement.

Phase-ins applicable for two years

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
Section 3 and 4	All disclosure requirements related to biodiversity and ecosystems	All disclosure requirements related to biodiversity and ecosystems	Undertakings not exceeding on their balance sheet dates the average number of 500 employees during the financial year may omit the information specified in the disclosure requirements of Section 3 and 4 related to Biodiversity and ecosystems for the first two years of preparation of their sustainability statement.
Section 5	S1-6	Training metrics	The undertaking may omit the breakdown by gender required under this Disclosure Requirement for the first two years of preparation of its sustainability statement.
Sections 2 and 3	All disclosure requirements	All disclosure requirements	Undertakings not exceeding on their balance sheet dates the average number of 500 employees during the financial year may omit the information specified in the disclosure requirements and application requirements related to workers in the value chain, affected communities and consumers and end-users for the first two years of preparation of their sustainability statement.

Phase-ins applicable for three years

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
Section 4	E6	Anticipated financial effects from material environmental-related matters – Climate change	The undertaking may comply with disclosure requirements in E6 related to climate change (see paragraph 34) by reporting only qualitative disclosures for the first three years of preparation of its sustainability statement.

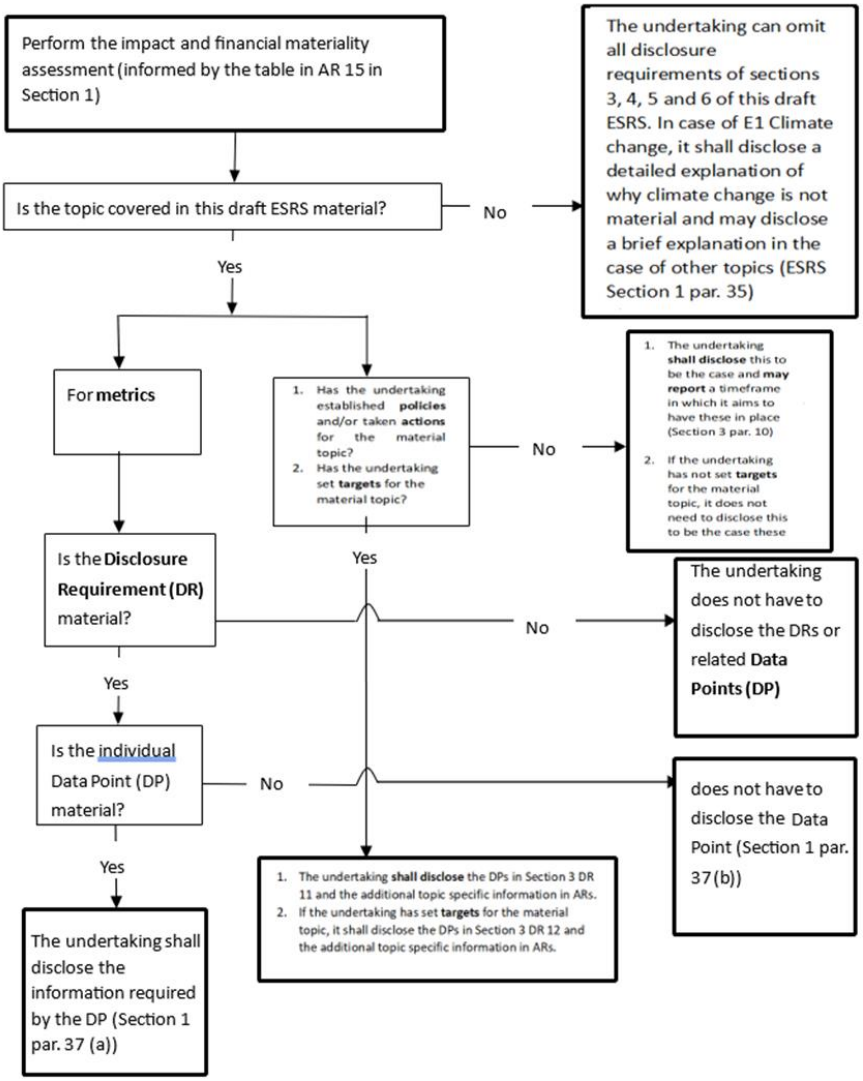
Appendix D: Structure of ESRS sustainability statement

This appendix is an integral part of this [draft] Standard and has the same authority as the other parts of the Standard with respect to reporting in the four parts outlined in paragraph 113.

Part of the management report	[draft] ESRS LSME codification	Title
1. General information	Section 2	*General disclosures*
2. Environmental information	*Not applicable*	*Disclosures pursuant to Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation)*
	Section 2 SBM-3 and IR-1 Section 3 IR-3 (Policies and actions), IR-4 (Targets) Section 4 (metrics)	*Climate change*
		Pollution
		Water and marine resources
		Biodiversity and ecosystems
		Resource use and circular economy
3. Social information	Section 2 SBM-3 Section 3 IR-3 (Policies and actions) Section 5 (metrics)	*Own workforce*
		Workers in the value chain
		Affected communities
		Consumers and end-users
4. Governance information	Section 3 IR-3 (Policies and actions) Section 6 (metrics)	*Business conduct*

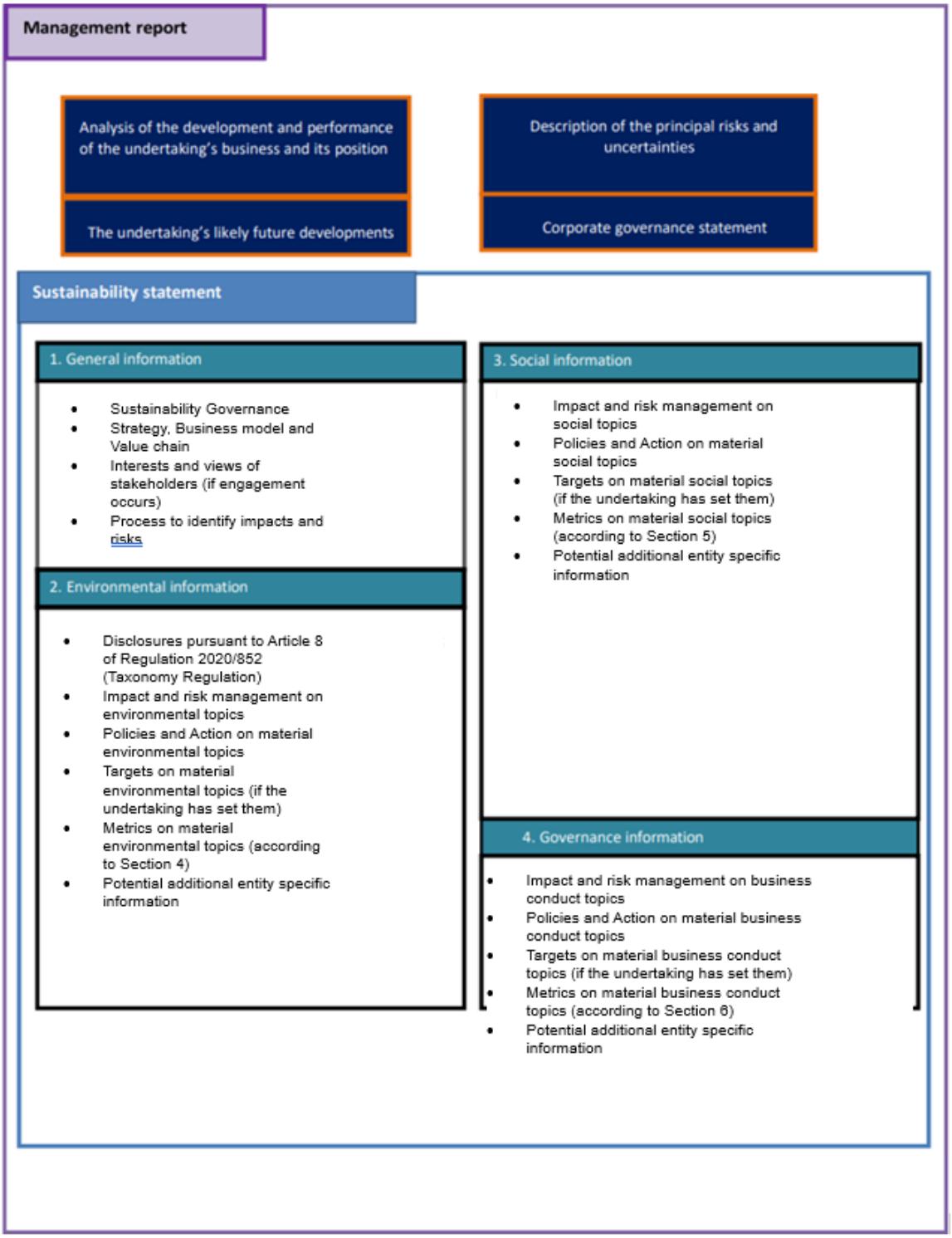
Appendix E: Flowchart for determining disclosures under [draft] ESRS LSME

Materiality assessment is the starting point for sustainability reporting under this [draft] Standard. This appendix provides a non-binding illustration of the impact and financial materiality assessment outlined in chapter 3 of this Section. Disclosure Requirement 9 (*IR-1*) *Description of the processes to identify and assess material impacts and risks* in section 2 of this [draft] Standard includes general disclosure requirements (DR) about the undertaking's process for identifying impacts and risks and assessing their materiality. Disclosure Requirement 7 (*SMB-3*) *Material impacts and risks and their interaction with strategy and business model* of Section 2 provides general disclosures requirements on the material impact, risks and opportunities resulting from the undertaking's materiality assessment. The undertaking can omit all disclosure requirements in a topical standard if it assessed that the topic in question is not material. In that case it may disclose a brief explanation of the conclusions of the materiality assessment for that topic but shall disclose a detailed explanation in the case of E1 climate change (Disclosure Requirement 10 (*IR-2*) *Disclosure Requirements in ESRS LSME covered by the undertaking's sustainability statement* in Section 2). This [draft] Standard sets disclosure requirements, not behavioural requirements. Disclosure requirements in relation to action plans, targets, policies, scenario analysis and transition plans are proportionate because they are contingent on the undertaking having them in place, which may depend on the size, capacity, resources, and skills of the undertaking.
Note: The flowchart below does not contemplate the case in which the undertaking assesses a sustainability matter as material but it is not covered by this [draft] Standard, in which case the undertaking shall make additional entity specific disclosures (AR 1 to AR 7 in this Section).


Perform the impact and financial materiality assessment (informed by the table in AR 15 in Section 1)
Is the topic covered in this draft ESRS material?
No
The undertaking can omit all disclosure requirements of sections 3, 4, 5 and 6 of this draft ESRS. In case of E1 Climate change, it shall disclose a detailed explanation of why climate change is not material and may disclose a brief explanation in the case of other topics (ESRS Section 1 par. 35)
Yes
For metrics
1. Has the undertaking established policies and/or taken actions for the material topic?
2. Has the undertaking set targets for the material topic?
No
1. The undertaking shall disclose this to be the case and may report a timeframe in which it aims to have these in place (Section 3 par. 10)
2. If the undertaking has not set targets for the material topic, it does not need to disclose this to be the case these
Is the Disclosure Requirement (DR) material?
Yes
No
The undertaking does not have to disclose the DRs or related Data Points (DP)
Yes
Is the individual Data Point (DP) material?
No
does not have to disclose the Data Point (Section 1 par. 37 (b))
Yes
The undertaking shall disclose the information required by the DP (Section 1 par. 37 (a))
1. The undertaking shall disclose the DPs in Section 3 DR 11 and the additional topic specific information in ARs.
2. If the undertaking has set targets for the material topic, it shall disclose the DPs in Section 3 DR 12 and the additional topic specific information in ARs.

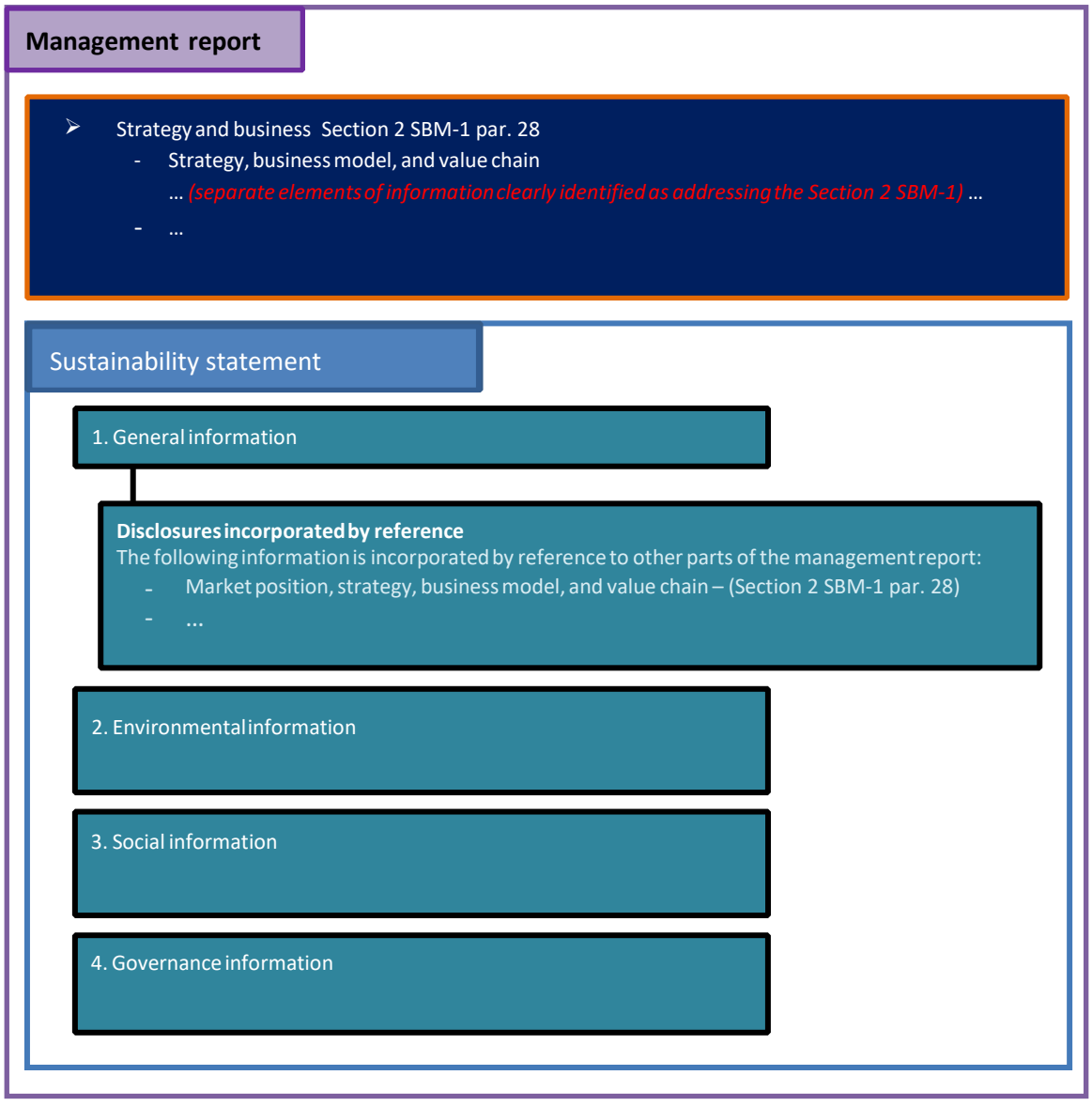
Appendix F: Example of structure of ESRS sustainability statement

This appendix complements Section 1 of this [draft] Standard. It provides a non-binding illustration of the structure of the sustainability statement outlined in chapter 7.2 of this Section. In this illustration, the undertaking has concluded that biodiversity and ecosystems, pollution and affected communities are not material.



Appendix G: Example of incorporation by reference

This appendix complements this [draft] Standard. It provides non-binding illustrations of incorporation by reference of another section of the management report into the sustainability statement as outlined in chapter 8.1 of this Section.



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

This appendix is an integral part of this [draft] Standard and has the same authority as the other parts of the Standard with respect to reporting in the four parts outlined in paragraph 113

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

[Draft] ESRS LSME

SECTION 2 GENERAL DISCLOSURES

DISCLAIMER

Section 2 *General disclosures* is set out in paragraphs 1–57. The following appendices of Section 2 have the same authority as the main body of the [draft] Standard:

- *Appendix A: Application Requirements*,

Section 2 *General disclosures* is accompanied by the following appendices:

- *Appendix B: List of datapoints in cross-cutting and topical sections that derive from other EU legislation*

General Disclosures

Objective

1. This section covers governance and strategy areas defined in Section 1 *General requirements* of this [draft] Standard*,* and it is applicable in conjunction with Section 3 *Policies, actions and targets* and the metrics sections of this [draft] Standard.

2. In the preparation of disclosures under this section of this [draft] Standard, the undertaking shall apply:

   (a) in all instances the topical requirements related to IR-1 *Description of the processes to identify and assess material impacts and risks* (and opportunities); and

   (b) topical requirements related to SBM–3 *Material impacts, risks and opportunities and their interaction with strategy and business model*, only if the sustainability topic is material based on the undertaking's materiality assessment (see section 1 chapter 3 *Double materiality as the basis for sustainability disclosures*).

1. Basis for preparation

Disclosure Requirement 1 (BP-1) – General basis for preparation of the sustainability statement

3. The objective of this Disclosure Requirement is to provide an understanding of how the undertaking prepares its individual ***sustainability statement***, under Art. 19a (6) of the Directive 2013/34/EU of the European Parliament and of the Council, including how it reports on subsidiaries, the upstream and downstream ***value chain*** information and, where relevant, whether the undertaking has used any of the options for omitting information referred to in points (b) and *(c)* in the following paragraph.

4. The undertaking shall disclose the general basis for preparation of its sustainability statement including the following information:

   (a) the extent to which the sustainability statement covers the undertaking's upstream and downstream value chain, including the extent of coverage of information about its subsidiaries, based on the results of the undertaking's materiality assessment, specifying, if applicable, the related reporting scope (see section 1 chapter 4.1 *Reporting undertaking and value chain*);

   (b) whether the undertaking has used the option to omit a specific piece of information corresponding to intellectual property, know-how or the results of innovation (see [draft] Section1 chapter 6.6 Classified and sensitive information, and information on intellectual property, know-how or results of innovation; and

   (c) whether the undertaking has used the exemption to not disclose information related to impending developments or matters in the course of negotiation (see [draft] Section 1 chapter 6.7 Matters in course of negotiation).

Disclosure Requirement 2 (BP-2) – Disclosures in relation to specific circumstances

5. The objective of this Disclosure Requirement is to provide an understanding of the effect that specific circumstances, when they occur, had on the preparation of the *sustainability statement*.

6. The undertaking may report this information alongside the disclosures to which they refer.

7. When it has deviated from the medium- or long-term time horizons defined in section 1 chapter 5.4 *Definition of short-, medium- and long-term for reporting purposes*, the undertaking shall describe:

(a) its definitions of medium- or long-term time horizons; and

(b) the reasons for applying those definitions.

8. The undertaking shall identify the quantitative metrics and monetary amounts it has disclosed that are subject to a high level of measurement uncertainty and disclose information that helps users to understand those uncertainties.

9. When ***metrics*** include upstream and/or downstream ***value chain*** data, including data of the subsidiaries, that are estimated using indirect sources such as sector-average data or other proxies, the undertaking shall identify those metrics and describe their basis for preparation.

10. When changes in the preparation and presentation of sustainability information occur compared to the previous reporting period(s), (see section 1 chapter 6.4 *Changes in preparation or presentation in sustainability information*), the undertaking shall:

(a) explain the changes; and

(b) where possible with a reasonable effort provide restated comparative figures.

11. When prior period material errors exist (see section 1 chapter 6.5 *Reporting errors in prior periods*), the undertaking shall disclose:

(a) the nature of the prior period material error;

(b) where possible with a reasonable effort, the correction for each prior period included in the ***sustainability statement***; and

(c) if correction of the error is not possible with reasonable effort, the circumstances that led to the existence of that condition.

12. When the undertaking includes in its ***sustainability statement*** information stemming from other legislation requiring the undertaking to disclose the sustainability information or from generally accepted sustainability reporting standards and frameworks (see section 1 chapter 7.2 *Content and structure of the sustainability statement*) in addition to the information prescribed by this [draft] Standard, it shall disclose this fact. In case of partial application of other reporting standards or frameworks, the undertaking shall provide a precise reference to the paragraphs of the standard or framework applied.

13. When the undertaking incorporates information by reference (see section 1 chapter 8.1 *Incorporation by reference*), it shall disclose a list of the disclosure requirements of this [draft] Standard or the specific datapoints mandated by a Disclosure Requirement that have been incorporated by reference.

14. If an undertaking decides to apply phased-in provisions according to Section 1 *Appendix C* in relation to the topics of biodiversity, ***own workforce***, ***value chain*** workers, ***affected communities***, consumers and ***end-users***, it shall nevertheless disclose whether the respective sustainability topics have been assessed to be material as a result of the undertaking's ***materiality*** assessment. In addition if one or more of these topics has been assessed to be material, the undertaking shall for each material topic:

(a) disclose the list of matters (i.e. topic, sub-topic or sub-sub-topic) in AR 22 of Section 1 Appendix A, that are assessed to be material and briefly describe how the undertaking's business model and strategy take account of the impacts of the undertaking related to those matters. The undertaking may identify the matter at the level of topic, sub-topic or sub-sub-topic;

(b) if it has policies in place, briefly describe its policies in relation to the topics in question;

(c) if it has implemented actions, briefly describe ***actions*** it has taken to identify, monitor, prevent, mitigate, remediate or bring an end to actual or potential adverse impacts related to the matters (topics) in question;

(d) disclose key metrics relevant to the topics in question.

2. Governance

15. The objective of this chapter is to set disclosure requirements that provide an understanding of the governance processes, controls and procedures put in place to monitor, manage and oversee ***sustainability*** matters.

Disclosure Requirement 3 (GOV-1) – The role of the administrative, management and supervisory bodies

16. The objective of this Disclosure Requirement is to provide an understanding of:

    (a) the composition and diversity of the ***administrative, management and supervisory bodies***;

    (b) the roles and responsibilities of the ***administrative, management and supervisory bodies*** in exercising oversight of the process for managing material ***impacts*** and ***risks*** *(*and opportunities), including management's role in these processes; and

    (c) the expertise of its administrative, management and supervisory bodies on ***sustainability matters*** or access to such expertise.

17. The undertaking shall disclose:

    (a) if the undertaking has such roles in its administrative, management and supervisory bodies, the number of executive and non-executive members, the representation of ***employees*** and other workers, the percentage of ***independent***[13] ***board members***; and

    (b) the percentage by gender[14] and other aspects of diversity that the undertaking considers. The board's gender diversity shall be calculated as an average ratio of female to male board members.

18. The undertaking shall disclose:

    (a) whether a governance body (***administrative, management or supervisory bodies***) or individual(s) within such a body have responsibility for oversight of sustainability impacts and risks;

    (b) if a process for oversight of sustainability impacts and risks (and opportunities) is in place, a brief description of it;

    (c) whether there are dedicated controls and procedures applied to the management of impacts and risks (and opportunities) and, if so, a brief description of them, including how they are integrated with other internal functions;

    (d) whether, by whom and how frequently the administrative, management and supervisory bodies, are informed about material impacts and risks (and opportunities) and, if applicable, about *(ii)* the policies, actions, and targets adopted to address them and *(iii)* the respective results and ***metrics;*** and

    (e) a brief description of how the administrative, management and supervisory bodies determine whether appropriate skills and expertise are available or whether they will be developed to oversee ***sustainability matters***.

[13] This information supports the needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator 'Weighted average percentage of board members who are independent' in section 1 of Annex 2.

[14] This information supports the needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts set out by indicator #13 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments (respectively, 'Board gender diversity') and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator 'Weighted average ratio of female to male board members' in Section 1 and 2 of Annex 2.

Disclosure Requirement 4 (GOV-2) – Due diligence

19. The objective of this Disclosure Requirement is to facilitate an understanding of the undertaking's due diligence process(es) with regard to ***sustainability matters***.

20. The undertaking shall disclose whether it has adopted due diligence process(es) with regard to sustainability matters or not.[15]

21. If the undertaking has implemented such process(es), it shall briefly describe how the due diligence process(es) has informed the undertaking's materiality assessment and where this is reflected in its ***sustainability statement***.

3. Strategy

22. This chapter sets out disclosure requirements that enable an understanding of:

    (a) the elements of the undertaking's strategy that relate to or affect ***sustainability matters***, its ***business model***(s) and its ***value chain*** and

    (b) the outcome of the undertaking's assessment of material ***impacts*** and ***risks*** (and opportunities), including how it informs its strategy and business model(s).

Disclosure Requirement 5 (SBM-1) – Strategy, business model and value chain

23. The objective of this Disclosure Requirement is to describe the key elements of the undertaking's general strategy that relate to or affect ***sustainability matters***, and the key elements of the undertaking's ***business model*** and ***value chain***, in order to provide an understanding of the undertaking's exposure to ***impacts*** and ***risks*** and where they originate.

24. The undertaking shall disclose the key elements of its strategy that relate to or affect ***sustainability matters***, its business model and its value chain including the following information:

    (a) a description of:

        i. significant groups of products and/or services offered, including changes in the reporting period (new or removed products and/or services);

        ii. significant markets and/or customer groups served, including changes in the reporting period (new or removed markets and/or customer groups);

        iii. headcount of employees by main countries of operation;

        iv. main countries of operation of the parent undertaking and of the subsidiaries that are associated with material ***impacts*** or ***risks*** *(*and opportunities); and

        v. products and services that are banned in certain markets, in case the undertaking has them.

    (b) a breakdown of total revenue by sectors. The list of sectors shall be consistent with the way sectors have been considered by the undertaking when performing its ***materiality*** assessment (which, as part of the ***value chain***, also includes its subsidiaries) and with the way it discloses material sector information[16];

    (c) if the undertaking is active in one of the following sectors, a statement indicating, together with the related revenues, whether the undertaking is active in:

[15]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 as set out by indicator #10 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (respectively, 'Lack of due diligence').

[16] The undertaking shall report the information starting from the application date specified in a Commission Delegated Act to be adopted pursuant to article 29c, of Directive 2013/34/EU.

i. the ***fossil fuel*** (coal, oil and gas) sector[17], i.e., whether it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council,[18] including a disaggregation of revenues derived from coal, from oil and from gas, as well as the revenues derived from Taxonomy-aligned economic activities related to fossil gas as required under Article 8(7)(a) of Commission Delegated Regulation 2021/2178;[19]

ii. chemicals production,[20] i.e., whether its activities fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006;

iii. controversial weapons[21] (anti-personnel mines, cluster munitions, chemical weapons and biological weapons); and/or

iv. the cultivation and production of tobacco[22]; and

25. The undertaking shall disclose a description of its ***business model*** and ***value chain.***

Disclosure Requirement 6 (SBM-2) – Interests and views of stakeholders

26. The objective of this Disclosure Requirement is to understand the extent to which ***stakeholders***' interests and views inform the undertaking's strategy and ***business model***.

27. If the undertaking engages with ***stakeholders***, it shall disclose:

(a) a brief description of the engagement activities by category of key stakeholders;

(b) the outcome of these activities in terms of contribution to identified material impacts and risks (and opportunities); and

(c) how their interests and views are taken into account by the undertaking's strategy and business model.

Disclosure Requirement 7 (SBM-3) – Interaction of material impacts and risks with strategy and business model

28. The objective of this Disclosure Requirement is to provide an understanding of the material ***impacts*** and ***risks*** (and opportunities) as they result from the undertaking's ***materiality***

[17] 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 by indicator #4 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments (respectively, 'Exposure to companies active in the fossil fuel sector').

[18] Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council (OJ L 328, 21.12.2018, p. 1).

[19] Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation (OJ L 443, 10.12.2021, p. 9).

[20] 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 by indicator #9 in Table 2 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments (respectively, 'Investments in companies producing chemicals').

[21] 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 by indicator #14 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments (respectively, 'Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)').

[22] This information supports the needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1818 as set out by paragraph (b) of article 12.1.

assessment and how they originate from and trigger the adaptation of the undertaking's strategy and ***business model****,* including its resources allocation.

29. The undertaking shall disclose its material ***impacts*** and ***risks*** (and opportunities) resulting from its ***materiality*** assessment and how they interact with its strategy and business model (see Disclosure Requirement IR-1 of this [draft] Standard). As defined in paragraph 8 in section 1, the undertaking may on a voluntary basis disclose positive impacts and opportunities.

The disclosure shall include:

(a) the undertaking's material impacts, including:

i. a brief description of how they affect (or, in the case of potential impacts, are likely to affect) people or the environment and how they originate from or are connected to the undertaking's strategy and ***business model***;

ii. whether the undertaking is involved with the material impacts through its activities or because of its ***business relationships*** (including its subsidiaries); and

iii. whether the reasonably expected time horizons of the impacts is short, medium or long term.

(b) the ***current financial effects*** of the undertaking's ***material risks*** (and opportunities) on its financial position, financial performance and cash flows and the material risks (and opportunities) for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;

(c) the ***anticipated financial effects*** of the undertaking's material risks (and opportunities) on its financial position, financial performance and cash flows over the short-, medium- and long-term including the reasonably expected time horizons for those effects. This may include how the undertaking expects its financial position, financial performance and cash flows to change over the short, medium- and long-term, given its strategy to manage risks (and opportunities), taking into consideration:

i. its investment and disposal plans (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements), including plans that the undertaking is not contractually committed to; and

ii. its planned sources of funding to implement its strategy.

30. When providing quantitative information on current and anticipated financial effects, the undertaking may disclose single amounts or ranges.

31. If it is not possible with a reasonable effort to provide quantitative information on anticipated financial effects, the undertaking may limit the information to a qualitative description, including the information required by paragraph 29 c).

32. The undertaking may disclose the descriptive information required in paragraph 29 a) alongside the disclosures provided under the corresponding sections of this [draft] Standard. In that case, it shall still present a statement of its material impacts and risks (and opportunities) alongside its disclosures prepared under this chapter.

Required disclosures on material impacts and risks at topical level

33. The undertaking shall disclose the information explained in the table below, when the corresponding topic is material. These are disclosure requirements stemming from other EU Regulations.

ID	Disclosure Requirement	Sustainability topic	EU related Data Points
1	If Biodiversity is material, the undertaking shall disclose whether or not it has sites located in or near biodiversity-sensitive areas and whether activities related to these sites negatively affect these areas;	Biodiversity	SFDR Tab. 1 KPI 7
2	If Biodiversity is material, the undertaking shall disclose whether it has identified material negative impacts with regard to land ***degradation***, ***desertification*** or soil sealing;	Biodiversity	SFDR Tab. 2 KPI 10
3	If Biodiversity is material, the undertaking shall disclose whether it has operations that affect threatened species;	Biodiversity	SFDR Tab. 2 KPI 14.1
4	If Own workforce is material and if the undertaking has operations at significant risk of ***incidents*** of **child labour;** ***forced labour*** or compulsory labour it shall describe them either in terms of country/geographic area or type of operation (such as manufacturing plant);	Own workforce	SFDR Tab. 3 KPI 12 and 13
5	If Workers in the value chain is material and if the undertaking is exposed to any	Workers in the value chain	SFDR Tab. 3 KPI 12 and 13

ID	Disclosure Requirement	Sustainability topic	EU related Data Points
	significant risk of incidents of ***child labour*** or of ***forced labour*** or compulsory labour among workers in the undertaking's value chain it shall describe them in terms of geographies (at country level or other levels) or commodities.		

Social

34. When disclosing the information on material ***impacts*** and ***risks*** (and opportunities) related to its ***own workforce***, ***value chain workers, affected communities or consumers and end-users*** the undertaking shall provide a brief description of the specific types of people within the four above-mentioned stakeholder groups that are subject to material impacts by its own operations and/or its upstream or downstream value chain, as the case may be. The following table shows specific groups for each of the four stakeholder groups.

Stakeholder groups	**Description**
Own workforce	This includes i. employees, ii. individual contractors (i.e., self-employed workers), or iii. workers provided by third-party undertakings primarily engaged in employment activities.
Value chain workers	This includes above all groups that are particularly vulnerable to negative impacts, whether due to inherent characteristics or to the particular context, such as i. trade unionists, ii. migrant workers, iii. home workers, iv. women workers, v. young workers.
Affected communities	This includes i. communities living or working around the undertaking's operating site or more remote communities affected by activities of those sites; ii. communities along the undertaking's upstream/downstream value chain;

Stakeholder groups	Description
	iii. communities at one or both endpoints of the value chain; and iv. communities of indigenous peoples.
Consumers and end-users	This includes i. consumers and/or end-users of products that are inherently harmful to one's health or increase risks of chronic disease; ii. consumers and/or end-users of services with potentially negatively impacts on rights to privacy, personal data protection, freedom of expression or non-discrimination; iii. consumers and/or end-users who depend on accurate and accessible product- or service-related information, such as manuals and product labels, to avoid potentially damaging use of a product or service; and iv. consumers and/or end-users who are particularly vulnerable to negative impacts from marketing and sales strategies, such as children or financially vulnerable individuals.

35. In the case of material negative impacts on any of the above-mentioned stakeholder groups the undertaking shall describe whether they are widespread or systemic in contexts where the undertaking operates, has sourcing or other ***business relationships*** or sells its products or services, as the case may be, or whether they are related to individual ***incidents***. Examples of material negative impacts that are widespread or systemic include ***child labour*** or ***forced***/***compulsory labour*** in specific countries or regions or in specific commodity supply chains, marginalised communities suffering impacts on their health and quality of life in a highly industrialised area, or state surveillance that affects the privacy of consumers and end-users. Examples of material negative impacts related to individual ***incidents*** include industrial accidents, oil or toxic waste spills that affect a community's access to clean drinking water, a peaceful protest by communities against business operations met with a violent response by the undertaking's security services, defects linked to particular products, or business partners whose marketing inappropriately targets young consumers.

36. If there are material negative impacts on social sustainability matters, as defined in section 1 AR 22 of this [draft] standard (i.e. on the undertaking's own workforce, value chain workers, affected communities, etc) that may arise from ***transition plans*** for reducing negative impacts on the environment and achieving greener and climate-neutral operations, the undertaking shall describe the impacts caused by the undertaking's plans and ***actions*** for reducing carbon ***emissions*** in line with international agreements. In the case of affected communities this includes impacts associated with innovation, restructuring, and closure of mines as well as increased mining of minerals needed for the transition to a sustainable economy and solar panel production.

Voluntary Disclosure 8 (SBM-4) – Positive impacts and material opportunities

37. The objective of this voluntary Disclosure Requirement is to provide an understanding of the material positive impacts and opportunities as they result from the undertaking's materiality assessment.

38. The undertaking may disclose its material sustainability-related positive impacts and/or its material sustainability-related financial opportunities.

39. Regarding opportunities, the undertaking shall not report on those for which the undertaking has not put in place or does not plan to put in place concrete ***actions*** to pursue them, accompanied by the necessary resources.

40. If the undertaking discloses its material positive ***impacts*** and/or ***material opportunities*** for environmental, social and business conduct ***sustainability matters***, the undertaking shall include a description of them, how they originate, the sustainability matter to which they are linked and their expected time horizon.

41. When disclosing opportunities the undertaking:

    (a) shall disclose the actions that the undertaking has put or plans to put in place to pursue the opportunity, including the resources that have been mobilized; and

    (b) may disclose how they result in ***financial effects***, provided that the opportunity is currently being pursued and it is incorporated in its strategy.

42. In relation to paragraph 41 (b), quantitative ***financial effects*** deriving from ***opportunities*** may be disclosed only when they meet the qualitative characteristics of information, including reliability, and shall be accompanied by a description of the methodology used for calculation and the main assumptions used. Furthermore, when providing quantitative information on financial effects, the undertaking may disclose single amounts or ranges.

43. In relation to paragraph 41 (b), if it is not possible with a reasonable effort to provide quantitative information on financial effects deriving from ***opportunities***, the undertaking may limit the information to a qualitative description.

    The requirements in this standard that refer to opportunities are also applicable.

4. Impact and risk management

44. This chapter sets out disclosure requirements that provide an understanding of:

    (a) the processes for identifying material ***impacts*** and ***risks*** (and opportunities) and

    (b) the information that, as a result of its ***materiality assessment***, the undertaking has included in its ***sustainability statement***.

4.1 Disclosures on the materiality assessment process

Disclosure Requirement 9 (IR-1) – Processes to identify and assess material impacts and risks

45. The objective of this Disclosure Requirement is to provide an understanding of the process through which the undertaking identifies environmental, social and governance-related ***impacts*** and ***risks*** (and opportunities) and assesses their ***materiality*** as the basis for determining the disclosures in its sustainability statement (see chapter 3 of Section 1 of this [draft] Standard chapter 3 and related Application Requirements). If the undertaking discloses on a voluntary basis positive impacts or ***opportunities***, it shall disclose the process through which it identifies them and assesses their materiality.

46. The undertaking shall provide a description of the processes it uses for identifying its impacts and risks (opportunities) and for assessing which ones are material including the following information:

(a) an overview of the process for identifying, assessing and prioritising the undertaking's actual and potential ***impacts*** in relation to ***sustainability matters*** (a list of sustainability matters is defined in Section 1 AR 18) based on their relative severity and, for potential impacts, also likelihood (see [draft] Section 1, chapter 3.4 *Impact materiality*);

(b) an overview of the process for identifying, assessing and prioritising ***risks*** (and opportunities) that have or may have ***financial effects*** (see draft Section 1 chapter 3.5 *Financial materiality*);

(c) the input parameters it uses (for example, data sources, the scope of covered operations and the details used in assumptions).

47. The description of the process for assessing ***impacts*** may include an explanation of whether and how the process:

(a) focusses on specific areas due to heightened risk of adverse impacts;

(b) considers the impacts with which the undertaking is involved through its own operations or as a result of its business relationships, including its subsidiaries;

(c) includes consultation with affected stakeholders to understand how they may be impacted as well as with external experts; and

(d) prioritises negative impacts based on their relative severity and likelihood (see [draft] Section 1 chapter. 3.4 *Impact materiality*) and determines which ***sustainability matters*** are material for reporting purposes, including the qualitative or quantitative thresholds along with other criteria used as prescribed by Section 1 paragraph 3.4 *Impact materiality*.

48. The description of the process for assessing ***risks*** (and opportunities) may include a description of:

(a) how the undertaking assesses the likelihood, magnitude and nature of the effects of the identified risks (and opportunities) (such as the qualitative or quantitative thresholds and other criteria used as prescribed by Section 1 chapter 3.5 Financial materiality) and of

(b) how the undertaking prioritises sustainability-related risks relative to other types of risks, including its use of risk-assessment tools.

49. Whilst the description of the process (as defined in paragraphs 43,44 and 45) applies to Environmental, Social and Governance, for environmental matters, the undertaking may additionally disclose one or more of the following items of information required in the Commission Delegated Regulation 2023/2772 of 31 July 2023 (Set 1):

(a) For climate change: ESRS E1 *Disclosure requirement related to ESRS 2 IRO-1* paragraphs 20 and 21 and the related Application Requirements AR 9 to AR 15;

(b) For pollution: ESRS E2 *Disclosure Requirement related to ESRS 2 IRO-1* paragraph 11 and the related Application Requirements AR 1 to AR 9;

(c) For water and marine resources: ESRS E3 *Disclosure Requirement related to ESRS 2 IRO-1* paragraph 8 and the related Application Requirements AR 1 to AR 15;

(d) For biodiversity and ecosystem: ESRS E4 *Disclosure Requirement related to ESRS 2 IRO-1* paragraphs 17 to 19 and the related Application Requirements AR 4 to AR 10); and

(e) For resource use and circular economy: see ESRS E5 *Disclosure Requirement related to ESRS 2 IRO-1* paragraph 11 and the related Application Requirements AR 1 to AR 7.

50. The undertaking may address all ***sustainability matters*** in a single location or present the relevant information separately in the topical sections of the ***sustainability statement***.

Disclosure Requirement 10 (IR-2) – Disclosure Requirements in ESRS LSME covered by the undertaking's sustainability statement

51. The objective of this Disclosure Requirement is to provide an understanding of the Disclosure Requirements included in the undertaking's sustainability reporting and of the topics that have been omitted as not material as a result of the ***materiality*** assessment.

52. The undertaking shall include a list of the Disclosure Requirements complied with in preparing the ***sustainability statement*** following the outcome of its ***materiality*** assessment (see Section 1 of this [draft] Standard, chapter 3 *Double materiality as the basis for sustainability disclosures*), including the page numbers and/or paragraphs where the related disclosures are located in the sustainability statement. This list may be presented as a content index and it may also be prepared in conjunction with the other (mandatory EU datapoints) content index defined in paragraph 53 of this section.

53. The undertaking shall also include a table featuring all the datapoints that derive from other EU legislation as listed in *Appendix B* of this section, indicating where they can be found in the sustainability statement, and including those that the undertaking has assessed as not material or not applicable or not disclosed because voluntary, in which case the undertaking shall indicate this as 'not material' or 'not applicable' or 'not disclosed because voluntary' in the table in accordance with Section 1 paragraph 43.

54. If the undertaking concludes that climate change is not material and therefore omits all disclosure requirements set out in ESRS E1 *Climate change*, it shall disclose a detailed explanation of the conclusions of its ***materiality*** assessment with regard to climate change (see Section 1 paragraph 40), including a forward-looking analysis of the conditions that could lead the undertaking to conclude that climate change is material in the future.

55. If the undertaking concludes that a topic other than climate change is not material and therefore omits all the Disclosure Requirements in the Sections 3, 4, 5 and 6 of these [draft] Standard, it may provide a brief explanation of the conclusions of its ***materiality*** assessment for that topic.

56. The undertaking shall provide an explanation of the process applied for identifying the information to be disclosed (defined in the disclosure requirements included in this [draft] Standard) in relation to material ***impacts*** and ***risks*** (and opportunities)**.**. This explanation includes the use of thresholds and/or how the undertaking has implemented the criteria in Section 1 chapter 3.2 *Material matters and materiality of information*.

Appendix A: Application Requirements – Section 2 General disclosures

1. Basis for preparation

Disclosure Requirement 1 (BP-1) – General basis for preparation of the sustainability statement

Guidance on how to structure the narrative disclosure on coverage of value chain information

AR 1. When describing to what extent the ***sustainability statement*** covers the undertaking's upstream and downstream ***value chain*** (see [draft] Section 1 section 4.1 *Reporting undertaking and value chain*), the undertaking may distinguish between:

(a) the extent to which its materiality assessment of impacts and risks (and opportunities) extends to its upstream and/or downstream value chain, with separate identification of how subsidiaries are treated;

(b) the extent to which its policies and actions extend to its value chain, with separate identification of how subsidiaries are treated;

(c) If the undertaking has set targets, the extent to which they extend to its value chain, with separate identification of how subsidiaries are treated; and

(d) the extent to which it includes upstream and/or downstream value chain data in disclosing on metrics, with separate identification of how subsidiaries are treated (see example in Section 1 AR 25 and 26).

Disclosure Requirement 2 (BP-2) – Disclosures in relation to specific circumstances

AR 2. The undertaking may disclose whether it relies on any European standards approved by the European Standardisation System (ISO/IEC or CEN/CENELEC standards) as well as the extent to which data and processes that are used for sustainability reporting purposes have been verified by an external assurance provider and found to conform to the corresponding ISO/IEC or CEN/CENELEC standard.

2. Governance

Disclosure Requirement 4 (GOV-2) – Due diligence

AR 3. This disclosure requirement does not mandate any specific behavioural requirements with regard to due diligence ***actions*** and does not extend to or modify the role of ***administrative, management and supervisory bodies*** as mandated by other legislation or regulation.

3. Strategy

Disclosure Requirement 5 (SBM–1) – Strategy, business model and value chain

AR 4. For the purposes of disclosures required in paragraph 23 a) and c), a group of products and/or services offered, a group of markets and/or customer groups served, or a sector / an ESRS sector is significant for the undertaking if it meets one or both of the following criteria:

(a) it accounts for more than 10 per cent of the undertaking's revenue and/or

(b) it is connected with the undertaking's material actual ***impacts*** or material potential negative impacts.

AR 5. To provide the information on sectors required by paragraph 23 c), the undertaking may:

(a) incorporate information by reference to the section of its financial statements with information on revenues by sectors. Undertakings applying IFRS 8 may refer to the information on its "operating segments";

(b) map its significant activities in accordance with ESRS sectors for large companies. If a code for a subsector does not exist, the caption 'others' shall be used to indicate this; or

(c) disclose NACE codes corresponding to the sector/s in which it is active.

AR 6. Contextual information may be particularly relevant for users of the undertaking's sustainability statement in order to understand the extent to which the reported disclosures include upstream and/or downstream value chain information. The description of the main features of the upstream and/or downstream value chain and, where applicable, the identification of key value chains should support an understanding of how the undertaking applies the requirements of [draft] Section 1 chapter 4 and the materiality assessment performed by the undertaking in line with [draft] Section 1 chapter 3. The description may provide a high-level overview of the key features of value chain entities, indicating their relative contribution to the undertaking's performance and positions, and explaining how they contribute to the value creation of the undertaking.

Disclosure Requirement 7 (SBM-3) – Material impacts and risks and their interaction with strategy and business model

AR 7. When describing where in its upstream and/or downstream ***value chain*** (including subsidiaries) material ***impacts*** and ***risks*** (and opportunities) are concentrated, the undertaking shall consider geographical areas, facilities or types of assets, inputs, outputs and distribution channels.

AR 8. This disclosure may be expressed in terms of a single impact or risk (or opportunity) or by aggregating groups of material ***impacts*** and ***risks*** (and opportunities) when this provides more relevant information and does not obscure material information.

Appendix B: List of datapoints in [draft] ESRS LSME that derive from other EU legislation

This appendix is an integral part of Section 2 and of this [draft] Standard. The table below illustrates the datapoints that derive from other EU legislation.

Disclosure requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark regulation[25] reference	EU climate law[26] reference
Section 2 GOV-1 Board's gender diversity paragraph 20(c)	Indicator number 13 of Table #1 of Annex 1		Commission Delegated Regulation (EU) 2020/1816[27], Annex II	
Section 2 GOV-1 Percentage of board members who are independent paragraph 20(d)			Delegated Regulation (EU) 2020/1816, Annex II	
Section 2 GOV-2 Statement on due diligence paragraph 24	Indicator number 10 Table #3 of Annex 1			
Section 2 SBM-1 Involvement in activities related to fossil fuel activities paragraph 30(c) i	Indicators number 4 Table #1 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453[28] Table 1: Qualitative information on Environmental risk and Table 2: Qualitative	Delegated Regulation (EU) 2020/1816, Annex II	

[23] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosures Regulation) (OJ L 317, 9.12.2019, p. 1).
[24] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Capital Requirements Regulation "CRR") (OJ L 176, 27.6.2013, p. 1).
[25] Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171, 29.6.2016, p. 1).
[26] Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (OJ L 243, 9.7.2021, p. 1).
[27] Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published (OJ L 406, 3.12.2020, p. 1).
[28] Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of environmental, social and governance risks (OJ L 324,19.12.2022, p.1.).

Disclosure requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark regulation[25] reference	EU climate law[26] reference
		information on Social risk		
Section 2 SBM-1 Involvement in activities related to chemical production paragraph 30(c) ii	Indicator number 9 Table #2 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II	
Section 2 SBM-1 Involvement in activities related to chemical production paragraph 30(c) iii	Indicator number 14 Table #1 of Annex 1		Delegated Regulation (EU) 2020/1818[29], Article 12(1) Delegated Regulation (EU) 2020/1816, Annex II	
Section 2 SBM-1 Involvement in activities related to chemical production paragraph 30(c) iv			Delegated Regulation (EU) 2020/1818, Article 12(1) Delegated Regulation (EU) 2020/1816, Annex II	
Section 3 AR 6 ID 19 Transition plan to reach climate neutrality by 2050				Regulation (EU) 2021/1119, Article 2(1)
Section 3 AR 6 ID 20 Undertakings excluded from Paris-aligned Benchmarks		Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 1: Banking book-Climate Change transition risk:	Delegated Regulation (EU) 2020/1818, Article12.1 (d) to (g), and Article 12.2	

[29] Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Parisaligned Benchmarks (OJ L 406, 3.12.2020, p. 17).

Disclosure requirement and related datapoint	**SFDR[23] reference**	**Pillar 3[24] reference**	**Benchmark regulation[25] reference**	**EU climate law[26] reference**
		Credit quality of exposures by sector, emissions and residual maturity		
Section 3 AR 67 ID 1 GHG emission reduction targets	Indicator number 4 Table #2 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 3: Banking book – Climate change transition risk: alignment metrics	Delegated Regulation (EU) 2020/1818, Article 6	
Section 4 E1-1 Energy consumption from fossil sources paragraph 7a)	Indicator number 5 Table #1 and Indicator n. 5 Table #2 of Annex 1			
Section 4 E1-1 Disaggregated and separated non-renewable energy production and renewable energy production in MWh paragraph 7d)	Indicator number 5 Table #1 of Annex 1			
Section 4 E1-1 Energy intensity associated with activities in high climate impact sectors paragraphs 8 to 10	Indicator number 6 Table #1 of Annex 1			
Section 4 E1-2 Gross Scope 1, 2, 3 and Total GHG	Indicators number 1	Article 449a;	Delegated Regulation (EU)	

Disclosure requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark regulation[25] reference	EU climate law[26] reference
emissions paragraph 11	and 2 Table #1 of Annex 1	Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 1: Banking book – Climate change transition risk: Credit quality of exposures by sector, emissions and residual maturity	2020/1818, Article 5(1), 6 and 8(1)	
Section 4 E1-2 Gross Scope 1, 2, 3 and Total GHG *emissions* paragraph 20 and 21	Indicators number 3 Table #1 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 3: Banking book – Climate change transition risk: alignment metrics	Delegated Regulation (EU) 2020/1818, Article 8(1)	
Section 4 E1-3 GHG removals and carbon credits paragraph 22				Regulation (EU) 2021/1119, Article 2(1)
Section 4 E1-4 Exposure of the benchmark portfolio to climate-related physical risks paragraph 29			Delegated Regulation (EU) 2020/1818, Annex II Delegated	

Disclosure requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark regulation[25] reference	EU climate law[26] reference
			Regulation (EU) 2020/1816, Annex II	
Section 4 E1-4 Disaggregation of Monetary amounts by acute and chronic physical risk paragraph 29(a) Section 4 E1-4 Location of significant assets at material physical risk paragraph 29(c).		Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 paragraphs 46 and 47; Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk.		
Section 4 E1-4 Breakdown of the carrying value of its real estate assets by energy-efficiency classes paragraph 30(c).		Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Paragraph 34; Template 2: Banking book -Climate change transition risk: Loans collateralised by immovable property -Energy efficiency of the collateral		
Section 4 E1-4			Delegated	

Disclosure requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark regulation[25] reference	EU climate law[26] reference
Degree of exposure of the portfolio to climate-related opportunities paragraph 33			Regulation (EU) 2020/1818, Annex II	
Section 4 E2-1 Amount of each pollutant listed in Annex II of the E-PRTR Regulation (European Pollutant Release and Transfer Register) emitted to air, water and soil, paragraph 36(a)	Indicator number 8 Table #1 of Annex 1 Indicator number 2 Table #2 of Annex 1 Indicator number 1 Table #2 of Annex 1 Indicator number 3 Table #2 of Annex 1			
Section 3 AR 6 ID 3 Water and marine resources	Indicator number 7 Table #2 of Annex 1			
Section 3 AR 6 ID 4 Water and marine resources	Indicator number 8 Table 2 of Annex 1			
Section 3 AR 6 ID 8 Sustainable oceans and seas	Indicator number 12 Table #2 of Annex 1			
Section 4 E3-1 Total water recycled and reused paragraph 44(c).	Indicator number 6.2 Table #2 of Annex 1			
Section 4 E3-1 Total water consumption in m3 per net revenue on own operations paragraph 45	Indicator number 6.1 Table #2 of Annex 1			
Section 2 AR 28 ID 1 sites located in or near biodiversity-sensitive areas and activities related to	Indicator number 7 Table #1 of Annex 1			

Disclosure requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark regulation[25] reference	EU climate law[26] reference
these sites negatively affect these areas				
Section 2 AR 28 ID 2 negative impacts with regards to land degradation, desertification or soil sealing	Indicator number 10 Table #2 of Annex 1			
Section 2 AR 28 ID 3 operations affecting threatened species	Indicator number 14 Table #2 of Annex 1			
Section 3 AR 6 ID 5 Sustainable land / agriculture practices or policies	Indicator number 11 Table #2 of Annex 1			
Section 3 AR 6 ID 8 Sustainable oceans/ seas practices or policies	Indicator number 12 Table #2 of Annex 1			
Section 3 AR 6 ID 7 Policies to address *deforestation*	Indicator number 15 Table #2 of Annex 1			
Section 4 E5-2 Non-recycled waste paragraph 62	Indicator number 13 Table #2 of Annex 1			
Section 4 E5-2 Hazardous waste and radioactive waste paragraph 64	Indicator number 9 Table #1 of Annex 1			
Section 2 AR 17 ID 1 Risk of incidents of forced labour	Indicator number 13 Table #3 of Annex I			
Section 2 AR 17 ID 2 Risk of incidents of child labour	Indicator number 12 Table #3 of Annex I			
Section 3 AR 6 ID 16 Human rights policy commitments	Indicator number 9 Table #3 and			

Disclosure requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark regulation[25] reference	EU climate law[26] reference
	Indicator number 11 Table #1 of Annex I			
Section 3 AR 6 ID 11 Due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8,			Delegated Regulation (EU) 2020/1816, Annex II	
Section 3 AR 6 ID 15 Processes and measures for preventing trafficking in human beings	Indicator number 11 Table #3 of Annex I			
Section 3 AR 6 ID 10 Workplace accident prevention policy or management system	Indicator number 1 Table #3 of Annex I			
Section 3 AR 6 ID 9 grievance/complaints handling mechanisms	Indicator number 5 Table #3 of Annex I			
Section 5 S1-7 Number of fatalities and number and rate of work-related accidents Paragraph 35(a) and 35(b)	Indicator number 2 Table #3 of Annex I		Delegated Regulation (EU) 2020/1816, Annex II	
Section 5 S1-7 Number of days lost to injuries, accidents, fatalities or illness paragraph 35(c)	Indicator number 3 Table #3 of Annex I			
Section 5 S1-8 Unadjusted gender pay gap Paragraph 39(a)	Indicator number 12 Table #1 of Annex I		Delegated Regulation (EU) 2020/1816, Annex II	
Section 5 S1-8 Excessive CEO pay ratio paragraph Paragraph 39 (b)	Indicator number 8 Table #3 of Annex I			
Section 5 S1-9	Indicator number 7			

Disclosure requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark regulation[25] reference	EU climate law[26] reference
Incidents of discrimination Paragraph 45 (a)	Table #3 of Annex I			
Section 3 AR 6 ID 2 and ID 13 Non-respect of UNGPs on Business and Human Rights and OECD	Indicator number 10 Table #1 and Indicator n. 14 Table #3 of Annex		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818 Art 12 (1)	
Section 2 AR 17 ID 3 Significant risk of child labour or forced labour in the value chain	Indicators number 12 and n. 13 Table #3 of Annex I			
Section 3 AR 6 ID 1 and 16 Human rights policy commitments	Indicator number 9 Table #3 and Indicator n. 11 Table #1 of Annex 1			
Section 3 AR 6 ID 14 and ID 15 Policies related to value chain workers	Indicator number 11 and n. 4 Table #3 of Annex 1			
Section 3 AR 6 ID 2 Non-respect of UNGPs on Business and Human Rights principles and OECD guidelines	Indicator number 10 Table #1 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818, Art 12(1)	
Section 3 AR 6 ID 12 Due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8			Delegated Regulation (EU) 2020/1816, Annex II	

Disclosure requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark regulation[25] reference	EU climate law[26] reference
Section 3 AR 6 ID 13 Human rights issues and incidents connected to its upstream and downstream value chain	Indicator number 14 Table #3 of Annex 1			
Section 3 AR 6 ID 1 and ID 16 Human rights policy commitments	Indicator number 9 Table #3 of Annex 1 and Indicator number 11 Table #1 of Annex 1			
Section 3 AR 6 ID 2 Non-respect of UNGPs on Business and Human Rights, ILO principles or and OECD guidelines	Indicator number 10 Table #1 Annex 1		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818, Art 12(1)	
Section 3 AR 6 ID 13 Human rights issues and incidents	Indicator number 14 Table #3 of Annex 1			
Section 3 AR 6 ID 1 and ID 16 Policies related to consumers and end-users	Indicator number 9 Table #3 and Indicator number 11 Table #1 of Annex 1			
Section 3 AR 6 ID 2 Non-respect of UNGPs on Business and Human Rights and OECD guidelines	Indicator number 10 Table #1 of Annex 1			
Section 3 AR 6 ID 3 Human rights issues and incidents	Indicator number 14 Table #3 of Annex 1			
Section 3 AR 6 ID 18	Indicator number 15			

Disclosure requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark regulation[25] reference	EU climate law[26] reference
United Nations Convention against corruption	Table #3 of Annex 1			
Section 3 AR 6 ID 17 Protection of whistle-blowers	Indicator number 6 Table #3 of Annex 1			
Section 6 G1-2 Fines for violation of anti-corruption and anti-bribery laws Paragraph 9(a)	Indicator number 17 Table #3 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II)	
Section 6 G1-2 Standards of anti-corruption and anti-bribery Paragraph 9(b)	Indicator number 16 Table #3 of Annex 1			

Appendix C: Application Requirements for disclosures related to Section 5 Social Metrics

This appendix is an integral part of the [draft] Section 2 – General Disclosures and has the same authority as the other parts of this [draft] Standard. It relates to Section 5 Social Metrics and supports the application of SBM-2 *Interests and views of stakeholders* and SBM-3 *Material impacts and risks and their interaction with strategy and business model*. This appendix does not provide definitions of the terms mentioned below. All defined terms can be found in the Acronyms and Glossary of Terms.

Social and human rights matters	Non-exhaustive list of factors to consider in Materiality Assessment
Secure employment	% of employees with temporary contracts, ratio of non-employees to employees, social protection
Working time	% of employees with part time or zero-hour contracts, employee satisfaction with working time
Adequate wages	EU, national or local legal definitions of adequate wages, fair wages, and minimum wages
Social dialogue / existence of work councils / information, consultation and participation rights of workers	Extent of workplace, cross-border and board-level representation through trade unions and/or works councils
Freedom of association/Collective bargaining including the rate of workers covered by collective agreements	% of own workforce covered by collective bargaining agreements, work stoppages
Work-life balance	Family-related leave, flexible working hours, access to childcare
Health and safety	Coverage by H&S system, rate of fatalities, non-fatal accidents, work days lost
Gender equality and equal pay for work of equal value	% of women in top management and workforce, male-female wage gap
Training and skills development	Amount and distribution of training
The employment and inclusion of people with disabilities	% employment and accessibility measures for employees with disabilities
Measures against violence and harassment in the workplace	Prevalence of violence and harassment
Diversity	Representation of women and /or ethnic groups or minorities in own workforce. Age distribution in own workforce. Percentage of persons with disabilities within the own workforce.
Child labour	Type of operations and geographical areas at risk of child labour
Forced labour	Type of operations and geographical areas at risk of forced labour

[Draft] ESRS LSME

SECTION 3 POLICIES, ACTIONS AND TARGETS

DISCLAIMER

Section 3 *Policies, actions and targets* is set out in paragraphs 1–30. The following appendices of Section 3 have the same authority as the main body of the [draft] Standard:
- *Appendix A: Application Requirements*.

Objective

1. This [draft] Section sets disclosure requirements for companies that have in place policies, actions, targets, processes for engaging or processes to remediate impacts, to enable an understanding of the undertaking's:

   (a) policies, actions and targets to prevent, mitigate and remediate actual and potential material negative impacts and to address material risks (collectively, to 'manage material sustainability matters') for a material matter. This includes minimum disclosures to be included when reporting on policies, actions and targets;

   (b) processes for engaging with own workers, workers in the value chain, affected communities, consumers and end-users, and their representatives on impacts if the undertaking has those processes in place;

   (c) processes to remediate negative impacts and channels for own workforce, value chain workers, affected communities, consumers and end-users and to raise concerns if the undertaking has those processes in place; and

   (d) policies, actions, targets in relation to positive impacts and opportunities, when they are reported on a voluntary basis.

2. 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). In determining the information to be included under this section, the undertaking shall apply:

   (a) the provisions in paragraph 41 of Section 1 for policies, actions and targets; and

   (b) the provisions in paragraph 38 of Section 1, which support also the determination of the details of narrative disclosure to be reported.

3. This Section covers policies, actions and targets as defined in Section 1 *General requirements* of this [draft] Standard, and it is applicable in conjunction with Section 2 *General disclosures* and the topical Sections of this [draft] Standard.

4. Disclosures related to an undertaking's own workforce, workers in the value chain, affected communities and consumers and end-users are located in Section 2, in the Disclosure Requirement SBM-3 and corresponding Application Requirements and in the Disclosure Requirements IR-3 and IR-4 and their corresponding Application Requirements in this Section. They concern policies, actions and targets with regard to impacts or risks connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. Sustainability matters that relate to an undertaking's workers in the value chain, affected communities and consumers and end-users are listed in Section 1 General Requirements, Appendix A, AR 22 of this standard.

Disclosure Requirement 11 (IR-3) – Policies and actions in relation to sustainability matters

5. If the undertaking has set ***policies*** or ***actions*** in relation to a material sustainability matter, the objective of this Disclosure Requirement is to define the information to be provided when such policies and actions are in place.

Requirement to disclose policies or actions on material sustainability matters

6. If the undertaking has policies or actions in place, for each material sustainability matter (i.e. topic, sub-topic and/or sub-sub-topic), it shall disclose:

   (a) policies that it has in place to prevent, mitigate and remediate actual and potential impacts and to address risks; and

(b) key actions taken or planned to address material impacts and risks and, where applicable, to achieve the objectives of related policies. Key actions are those actions that materially contribute to achieving the undertaking's objectives in addressing material impacts and risks. For reasons of understandability, key actions may be aggregated where appropriate.

The disclosure should reflect the content of the relevant policies and actions.

7. If the implementation of an action plan requires significant operational expenditures (Opex) and/or capital expenditures (Capex), the undertaking shall:

(a) describe the type of current and future financial and other resources allocated to the action plan, including, if the action plan has been financed with sustainable finance instruments such as green bonds, social bonds and green loans, the relevant terms of those instruments

(b) provide the amount of current financial resources; and

(c) provide the amount of future financial resources.

Required information when reporting on policies and actions

8. When providing disclosures on ***policies***, including on an entity-specific basis, the undertaking shall include the following minimum information:

(a) a description of the key contents of the policy, including its general objectives, and of which material impacts or risks the policy relates to;

(b) a description of the scope of the policy (in terms of activities, value chain, including relevant subsidiaries, geographies and, if relevant, affected stakeholder groups);

(c) the most senior level in the undertaking's organisation that is accountable for the implementation of the policy;

(d) a reference to any third-party standards or initiatives to which the undertaking may have committed itself through the implementation of the policy;

(e) if the undertaking in defining a policy has considered stakeholders' views and interests, a description of the consideration given to the interest of these key stakeholders in setting this policy; and

(f) if the policy is made available to potentially affected stakeholders and to stakeholders who need to help implement it how the undertaking makes this policy available to those groups of stakeholders.

9. When providing disclosures on ***actions***, including on an entity-specific basis, the undertaking shall disclose the following minimum information:

(a) the list of key actions taken in the reporting year and planned for the future as well as their expected outcomes;

(b) the scope of the key actions (i.e., coverage in terms of activities, value chain, geographies and, if applicable, affected stakeholder groups);

(c) the time horizons under which the undertaking intends to complete each key action;

(d) if the undertaking has implemented them, a description of the key actions taken (along with results) to provide for, cooperate in or support the provision of remedy for those harmed by actual material impacts; and,

(e) if the undertaking has a process in place to monitor progress of its actions or action plans disclosed in prior periods , quantitative and qualitative information regarding the progress of those actions or action plans.

10. If the undertaking cannot disclose the information on ***policies*** and ***actions*** because it has not adopted policies and/or taken actions with regard to a material ***sustainability matter***, it shall

state this. If it plans to adopt such policies and/or take actions it may also disclose the timeline for doing so.

Required disclosures on policies and actions at topical level

11. The undertaking shall disclose the information explained in the table below, when the corresponding topic is material. These are disclosure requirements stemming from other EU Regulations. The corresponding disclosure shall be prepared following paragraphs 9 to 11 of this Section.

	Environment			
ID	**Disclosure requirement**	**Sustainability topic**		**EU-related data points**
1	The undertaking shall disclose its transition plan for climate change mitigation, if there is one in place. If the undertaking has adopted a transition plan for climate change mitigation, it shall provide information about it, including an explanation of how its GHG emission reduction targets are compatible with the limiting of global warming to 1.5°C. In disclosing this information, the undertaking shall consider ESRS Set 1 E1-1 AR 1. If the undertaking has significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities30, it shall disclose the amounts of those investments.	Climate change	A	Climate Law Benchmark Reg.
2	Additionally, if the undertaking has set a transition plan, it shall disclose whether or not the undertaking is excluded from the EU Paris-aligned Benchmarks.	Climate change	A	EBA Pillar 3 Benchmark Reg.
3	If the undertaking has in place policies to manage this topic, it shall disclose those policies, including if it has a	Water and marine resources	P	SFDR Tab. 2 KPI 7, KPI 8 and KPI 12

[30] The CapEx amounts considered are related to the following NACE codes:
(a) B.05 Mining of coal and lignite, B.06 Extraction of crude petroleum and natural gas (limited to crude petroleum), B.09.1 Support activities for petroleum and natural gas extraction (limited to crude petroleum),
(b) C.19 Manufacture of coke and refined petroleum products,
(c) D.35.1 - Electric power generation, transmission and distribution,
(d) D.35.3 - Steam and air conditioning supply (limited to coal-fired and oil-fired power and/or heat generation),
(e) G.46.71 Wholesale of solid, liquid and gaseous fuels and related products (limited to solid and liquid fuels).

	Environment			
ID	**Disclosure requirement**	**Sustainability topic**		**EU-related data points**
	site(s) located in an ***area of high-water stress***. In disclosing this information, the undertaking shall consider ESRS Set 1 E3 par. 13 and AR 17.			
4	If the undertaking has policies to manage this topic in place, it shall disclose such policies or practices, including whether they are related to sustainable land/agriculture practices or policies, sustainable oceans and seas practices or policies, and policies to address ***deforestation.*** In disclosing this information, the undertaking shall consider ESRS Set 1 E4 23, 24 and AR 14.	Biodiversity and ecosystems	P	SFDR Tab. 2 KPI 11, KPI 12 and KPI 15
5	If the undertaking has policies to manage this topic in place, shall disclose whether it has adopted a biodiversity and ecosystem protection policy covering operational sites owned, leased, or managed in or near a biodiversity sensitive area. In disclosing this information, the undertaking shall consider ESRS Set 1 E4 par. 23, 24 and AR 14.	Biodiversity and ecosystems	P	SFDR Tab. 2 KPI 14.2

	Social

ID	Disclosure requirement	Sustainability topic		EU-related data points
6	The undertaking shall disclose: a) whether or not it has a grievance/complaints handling mechanism related to ***employee*** matters.[31] b) whether it has a workplace accident prevention policy or management system.	Own workforce	P	SFDR Tab. 3 KPI 5 SFDR Tab. 3 KPI 1
7	The undertaking shall disclose whether and how its policies with regard to its own workforce are aligned with relevant internationally recognised instruments, including the UN Guiding Principles on Business and Human Rights.	Own workforce	P	Benchmark Reg. section 1 and 2 of Annex 2
8	The undertaking shall disclose whether and how its policies with regard to value chain workers, affected communities, consumers and/or end-users are aligned with internationally recognised instruments relevant to value chain workers, including the United Nations (UN) Guiding Principles on Business and Human Rights. The undertaking shall also disclose the extent to which cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises that involve value chain workers, affected communities, consumers and/or end-users have been reported in its	Workers in the value chain Affected communities consumers and/or end-users	P	SFDR Tab. 1 KPI 10 Benchmark Reg. section 1 and 2 of Annex 2

[31] The information regarding Processes to remediate negative impacts and channels for own workforce to raise concerns has to be reported only once by the undertaking.

	Social

ID	Disclosure requirement	Sustainability topic		EU-related data points
	upstream and downstream value chain and, if applicable, describe the nature of these cases.			
9	The undertaking shall also state whether it has a supplier code of conduct.	Workers in the value chain	P	SFDR Tab. 3 KPI 4
10	The undertaking shall state whether its policies in relation to those topics explicitly address trafficking in human beings, ***forced labour*** or compulsory labour and ***child labour.*** In disclosing this information, the undertaking shall consider ESRS Set 1 in S1 AR 13, in S2 par. AR 15	Own workforce Workers in the value chain	P	SFDR Tab. 3 KPI 11
11	The undertaking shall describe its human rights policy commitments, including those processes and mechanisms to monitor compliance with the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises. In disclosing this information, the undertaking shall consider ESRS Set 1 in S1 par. 20 and AR 12, in S2 par. 17 and AR 14, in S3 par. 16 and AR 10, in S4 par. 16 and AR 11.	Own workforce Workers in the value chain Affected communities Consumers and end-users	P	SFDR Tab. 3 KPI 9 SFR Tab. 1 KPI 11
12	The undertaking shall disclose whether severe human rights issues and ***incidents*** connected to its upstream	Workers in the value chain		SFDR Tab. 3, KPI 14

	Social

ID	Disclosure requirement	Sustainability topic		EU-related data points
	and downstream value chain have been reported and, if applicable, disclose these. In disclosing this information, the undertaking shall consider ESRS Set 1 in S2 par. 36, in S3 par. 36, and in S4 par. 35.	Affected communities Consumers and end-users		

	Business conduct			
ID	Disclosure requirement			
13	If the undertaking has no policies on the protection of whistle-blowers, it shall state that it does not have such policies. In disclosing this information, the undertaking shall consider ESRS Set 1 in G1 par. 10 (d) and par. 11	Business conduct	P	SFDR Tab. 3 KPI 6
14	If the undertaking has no policies on anti-corruption or anti-bribery consistent with the United Nations Convention against Corruption, it shall state this.	Business conduct	P	SFDR Tab. 3 KPI 15
15	The undertaking shall disclose any actions taken to address breaches in procedures and standards of anti-***corruption*** and anti-***bribery***.	Business conduct	A	SFDR Tab. 3 KPI 16

12. In addition to the information above, depending on the specific circumstances of the undertaking, one or more of the following aspects could be applicable.

Policies and actions for climate change

13. In disclosing its climate change policies related to climate change mitigation, the undertaking shall specify the aspects of those policies that address the management of the undertaking's GHG emissions, GHG removals and transition risks over different time horizons in its own operations and/or in the upstream and downstream value chain (including relevant subsidiaries).

14. In disclosing its climate change policies related to climate change adaptation, the undertaking shall explain how the policies address the management of the undertaking's physical climate risks and climate change adaptation-related transition risks.

15. In disclosing its key actions taken in the reporting year and planned for the future, the undertaking shall present the climate change mitigation actions by decarbonisation lever including the nature- based solutions (i.e., energy efficiency, electrification, fuel switching, use of renewable energy, products change, and supply-chain decarbonisation).

16. When describing the outcome of the actions for climate change mitigation, the undertaking shall include the achieved and expected GHG emission reductions.

Policies and actions for pollution

17. In disclosing its pollution-related ***policies*****,** and depending on the undertaking's sector, it shall specify whether and how the content of the policy relates the following areas where material:

    (a) mitigating negative impacts related to pollution of air, water and soil, including prevention and control;

    (b) substituting and minimising the use of substances of concern and phasing out substances of very high concern, in particular for non-essential societal use and in consumer products; and

    (c) avoiding incidents and emergency situations and, if and when they occur, controlling and limiting their impact on people and the environment.

Policies and actions for water and marine resources

18. In disclosing its ***policies*** related to water and ***marine resources***, and depending on the undertaking's sector, it shall specify whether and how the content of the policy relates the following areas where material:

    (a) water management, including:

        i. the use and sourcing of water and marine resources in its own operations;

        ii. water treatment as a step towards more sustainable sourcing of water; and

        iii. the prevention and abatement of water pollution resulting from its activities;

    (b) product and service design in view of addressing water-related issues and the preservation of marine resources; and

    (c) the commitment to reduce material water consumption in areas at water risk in its own operations along the upstream and downstream value chain.

Policies and actions for biodiversity and ecosystems

19. In disclosing its ***policies*** related to ***biodiversity*** and ***ecosystems***, and depending on the undertaking's sector, it shall specify whether and how the content of the policy relates the following areas where material:

    (a) avoid its negative impacts on biodiversity and ecosystems in its own operations and related upstream and downstream value chain;

    (b) reduce and minimise its negative impacts that cannot be avoided on biodiversity and ecosystems in its operations and throughout the upstream and downstream value chain;

(c) restore and rehabilitate degraded ecosystems or restore cleared ecosystems following exposure to impacts that cannot be completely avoided and/or minimised;

(d) mitigate its material biodiversity loss drivers; and

(e) adapt its strategy and business model in line with relevant aspects of the EU Biodiversity Strategy for 2030, the Kunming Montreal Global Biodiversity Framework, Directive 2009/147/EC of the European Parliament and of the Council and Council Directive 92/43/EEC (EU Birds and Habitats Directives) and/or Directive 2008/56/EC of the European Parliament and of the Council (Marine Strategy Framework Directive.

Policies and actions for resource use and circular economy

20. In disclosing its ***policies*** related to resource use and ***circular economy***, and depending on the undertaking's sector, it shall specify whether and how the content of the policy relates the following areas where material:

(a) transitioning away from use of virgin resources, including relative increases in use of secondary (recycled) resources; and

(b) sustainable sourcing and use of renewable resources.

(c) the waste hierarchy: (i) prevention; (ii) preparation for re-use; (iii) recycling; (iv) other recovery, e.g., energy recovery; and (v) disposal. In this context, waste treatment cannot be considered as recovery; and

(d) the prioritisation of the avoidance or minimisation of waste (be it through re-using, repairing, refurbishing, remanufacturing and repurposing) over waste treatment strategies (recycling). The concepts of eco-design,32 waste as a resource and post-consumer waste (at the end of a consumer-product lifecycle) should also be taken in consideration.

Policies related to an undertaking's own workforce, value chain workers, affected communities or consumers and end-users

21. When the undertaking discloses its policies related to own workforce, workers in the value chain, communities, consumers and end-users it shall describe its policies for managing its material impacts on these affected stakeholder groups as well as associated material risks. Concerning actions, it shall describe any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential negative impacts and to address risks.

22. When it describes its policies in accordance with paragraph 21 the undertaking shall disclose whether it engages with the related stakeholder groups.

23. If the undertaking has adopted an anti-discrimination policy for its ***own workforce***, it shall disclose this. It may also disclose which forms of discrimination are covered (racial and ethnic origin, colour, sex, sexual orientation, gender identity, disability, age, religion, political opinion, national extraction or social origin or other forms of discrimination covered by EU or national laws).

Processes for engaging on impacts with an undertaking's own workforce and workers' representatives, value chain workers, affected communities or consumers and end-users

24. If the undertaking engages with its ***own workforce***, ***value chain workers***, ***affected communities*** or ***consumers and end-users*** it shall disclose:

[32] As established by the Directive 2009/125/EC.

(a) its general processes for engaging, where relevant, with the stakeholder group in question and/or their representatives on actual and potential material impacts on them; and

(b) whether it engages directly with the stakeholder(s) in question or their representatives.

25. If the undertaking does not have general processes for engaging with the above-mentioned stakeholders, it may disclose whether and by when it intends to introduce them.

26. Where ***affected communities*** are ***indigenous peoples***, the undertaking shall disclose how it takes into account and ensures respect of their rights in its ***stakeholder engagement*** approach, including their right to **free, prior and informed consent** with regard to their cultural, intellectual, religious and spiritual property, activities affecting their lands, and territories and resources they customarily own, occupy or otherwise use, and legislative or administrative measures that affect them.

Processes for remediating negative impacts and channels for an undertaking's own workforce, value chain workers, affected communities or consumers and end-users to raise concerns

27. If the undertaking has processes for remediating negative impacts on either its own workforce, value chain workers, affected communities or consumers and end-users it shall disclose its processes for providing or contributing to remedy for material negative impacts on any of the aforementioned stakeholders it has caused or contributed to, including whether and how it assesses the effectiveness of remedial measures, and any channels it has in place for any of the aforementioned stakeholders to raise their concerns or needs and have them addressed. If the undertaking does not have such processes or channels, it may disclose whether and by when it intends to introduce them.

Policies and actions for business conduct

28. If the undertaking has adopted policies with respect to supplier relationships, it shall specify:

(a) whether this includes a practice/procedure to monitor late payments; and

(b) whether this includes purchasing practice / procedure and whether this purchasing practice/procedure also considers ESG criteria.

29. If "Corruption and bribery" is material and if the undertaking has implemented policies / actions to manage this topic, it shall 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. This may include training or refer to whistleblowing systems.

Disclosure Requirement 12 (IR-4) – Targets in relation to sustainability matters

30. If the undertaking has set measurable, time-bound and outcome-oriented ***targets*** to monitor progresses overtime and track effectiveness of its ***actions*** in relation to material sustainability ***impacts*** and ***risks (***and ***opportunities)***, the objective of this Disclosure Requirement is to provide an understanding of how the undertaking has implemented such targets.

31. If the undertaking has implemented targets, with regard to each material sustainability matter, including on an entity-specific basis, it shall disclose the following information:

(a) the relationship of the target to the relevant policy objectives;

(b) the defined level of ambition (quantitative and/or qualitative, depending on the nature of the target) to be achieved, including, if applicable, whether the target is absolute or relative and in which unit it is measured;

(c) the scope of the target (operations, upstream and/or downstream value chain, subsidiaries, geographical boundaries or activities);

(d) if the undertaking has set, the baseline value and base year from which progress is measured, the related information;

(e) the timeframe to achieve the target;

(f) the methodologies and significant assumptions used to define targets, including, if the undertaking has used them, the selected scenario, data sources, alignment with science-based methodologies, and national, EU or international policy goals;

(g) the overall progress towards the defined target.

32. When disclosing information according to paragraph 31, the undertaking shall consider publicly claimed ***targets*** or targets communicated to investors or lenders.

33. The ***targets*** may cover the undertaking's own operations and/or ***value chain*** (including relevant subsidiaries).

Required disclosures on targets at topical level

34. The undertaking shall disclose the information illustrated in the table below, when the corresponding topic is material and provided that it has adopted the relevant targets. These are disclosure requirements stemming from other EU Regulations. The corresponding disclosure shall be prepared following paragraphs 13/16 of this Section.

ID	Application requirement	Sustainability topic	Targets – T	EU data points
1	If Climate change is material and the undertaking has targets on ***GHG emission reduction***, it shall disclose its GHG emission reduction targets for scope 1, 2 and 3.	Climate change	T	SFDR Tab. 2 KPI 4 benchmark regulation, Art. 6 Pillar 3

35. In addition to the information above, depending on the specific circumstances of the undertaking, one or more of the following aspects could be relevant.

Targets for climate change

36. If the undertaking has set GHG emission reduction targets for Scope 1, 2, and 3, it shall disclose:

(a) GHG emission reduction targets in absolute value (either in tonnes of CO2eq or as a percentage of the emissions of a base year) and, where relevant, in intensity value;

(b) GHG emission reduction targets for Scope 1, 2, and 3 GHG emissions, either separately or combined. The undertaking shall specify, in case of combined GHG emission reduction targets, which GHG emission Scopes (1, 2 and/or 3) are covered by the target;

(c) the current base year and baseline value of the target, and from 2030 onwards, an update of the base year for its GHG emission reduction targets after every five-year period thereafter; and

(d) whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5°C, including information on which framework or methodology has been used to determine these targets – such as whether they are derived using a sectoral decarbonisation pathway – what the underlying climate and policy scenarios are and whether they have been externally assured.

37. Additional information and guidance on targets implemented in relation to a material sustainability matter are provided in the Application Requirements IR-4.

Appendix A: Application Requirements – Section 3 Policies, Actions and Targets

Disclosure Requirement 11 (IR-3) – Policies and actions in relation to sustainability matters

This section provides clarification on how to report on non-formalised policies, actions and targets.

AR 1. If the undertaking has not formalised a policy but has implemented actions or defined targets through which the undertaking seeks to address material impacts and risks, it may disclose them as actions and/or targets, despite the fact that they are not formalised.

AR 2. As an illustration, consider the following:

(a) if the undertaking has implemented actions in relation to its employees (i.e., to ensure equal treatment or a health and safety management system) but has not formalised a policy, it describes the actions undertaken to address the related material impacts and risks. Furthermore, the undertaking, if applicable, discloses which organisational level has been assigned responsibility for implementing these actions or action plans (i.e., department, management, top management, etc.), and

(b) if the undertaking has defined targets in relation to material impacts or risks (i.e., to reduce emissions, water consumption, etc.) but has not formalised a policy, it describes these targets and, if applicable, the department or person in charge of measuring and reporting on the progress achieved towards these targets.

This section provides guidance on how the disclosure on policies and actions could be structured in order to reflect the specificities of the undertaking.

AR 3. When disclosing policies and actions at topical level, the undertaking may cover more than one sub-topic in the policy/action it discloses. For instance, if the undertaking has a policy at topical level, the disclosure may cover more than one sub-topic in the same policy.

AR 4. In disclosing information on policies and actions, the undertaking may include such a disclosure in a centralised section or in one topical section of its sustainability statement and cross-referencing to the other topical sections (specially if a single policy or the same actions address several interconnected sustainability matters) or divide and present the relevant disclosure in each sustainability topical section of the sustainability statement

AR 5. A single policy may apply to several material sustainability matters, including matters addressed by more than one topical section of this [draft] Standard. For example, if a single policy covers both an environmental matter and a social matter, the undertaking may report on the policy in the environmental section of its sustainability statement. In this case, in the social section it may cross-reference the environmental section where the policy is reported. Equally, a policy may be reported in the social section by cross-referencing the environmental section.

AR 6. 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 to report on.

AR 7. Information on resource allocation to implement actions may be presented in the form of a table and broken down, across the relevant time horizons, by capital expenditure and operating expenditure, by resources applied in the current reporting year, and by the planned allocation of resources over specific time horizons.

AR 8. With reference to paragraph 13 of this Section, additional information on policies and actions implemented in relation to a material sustainability matter are provided in the following Application Requirements.

ENVIRONMENT

Policies and actions for climate change

AR 9. When disclosing its climate change adaptation and mitigation actions and if the undertaking is subject to the disclosures pursuant to Article 8 of Regulation (EU) 2020/852, it shall connect significant monetary amounts of CapEx and OpEx that are required to implement the actions to:

(a) the key performance indicators required under Commission Delegated Regulation (EU) 2020/852; and,

(b) if applicable, to the CapEx plan required by Commission Delegated regulation (EU) 2021/2178.

In doing so, the undertaking shall consider Set 1 ESRS E1 AR 20 and AR 22.

AR 10. In case the undertaking does not have a transition plan for climate change mitigation in place, it may indicate whether and, if so, when it will adopt such a transition plan.

AR 11. When disclosing the information required under paragraph 12 ID2 and if the undertaking has set a transition plan, it shall state whether or not it is excluded from the EU Paris-aligned Benchmarks in accordance with the exclusion criteria stated in Articles 12.1 (d) to (g) and 12.2 of Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Standards Regulation).

Policies and actions for pollution

AR 12. When describing its ***policies*** on ***pollution***, the undertaking may include information on the ***pollutant(s)*** or ***substance(s)*** covered.

AR 13. When disclosing information on policies related to ***pollution***, the undertaking may include contextual information on the relation between its implemented policies and how they may contribute to the EU Action Plan 'Towards a Zero Pollution for Air, Water and Soil' with, for instance, elements on:

(a) how it is or may be affected by the targets and measures of the EU Action Plan and the revision of existing directives (e.g., the Industrial Emissions Directive); and

(b) how it intends to reduce its pollution footprint to contribute to these targets.

Policies and actions for water and marine resources

AR 14. When disclosing information on ***actions*** related to water and ***marine resources***, the undertaking may specify actions and resources in relation to ***areas at water risk***, including ***areas of high-water stress***.

AR 15. In the case of collective action or action plans involving other ***stakeholders***, the undertaking may provide information on those specific collective ***actions*** and the related involved parties.

Policies and actions for biodiversity and ecosystems

AR 16. When disclosing ***policies*** related to social consequences of ***biodiversity*** and ***ecosystems***, the undertaking may notably refer to the Nagoya Protocol on Access and Benefit-sharing and to the Convention for Biological Diversity (CBD).

AR 17. When disclosing the information on ***actions*** related to ***biodiversity*** and ***ecosystems***, the undertaking:

(a) may disclose whether it used biodiversity offsets in its action plans and, if so, provide a description of the offsets used, including area, type, the quality criteria applied and the standards that the biodiversity offsets comply with; and

(b) may describe whether and how it has incorporated nature-based solutions into biodiversity and ecosystems-related actions.

AR 18. In addition, when disclosing the information on ***actions*** related to biodiversity and ***ecosystems***, the undertaking may disclose how it has applied the mitigation hierarchy with regard to its actions (avoidance, minimisation, restoration/rehabilitation, and compensation or offsets).

AR 19. The undertaking may disclose whether it considers an “avoidance” action plan. An avoidance action plan prevents damages before they take place. An example of avoidance is altering the **biodiversity** and ecosystem footprint of a project to avoid destruction of natural **habitat** on the **site** and/or establishing set-asides where priority biodiversity values are present and will be conserved.

Policies and actions for resource use and circular economy

AR 20. When disclosing the information on **actions** related to **resource use** and **circular economy**, the undertaking may specify whether and how the actions and resources cover specific circular design and business practices, as well as the use of recyclates and the prevention and optimisation of waste.

BUSINESS CONDUCT

AR 21. The content of the EU Law Table stemming from other EU Regulations, particularly the one related to Social disclosures and ID 11 in Section 3 IR 3 may be relevant for business conduct as the undertaking has to state whether it has a supplier code of conduct.

Disclosure Requirement 12 IR-4) – Targets in relation to sustainability matters

AR 22. When disclosing ***targets*** related to the prevention or mitigation of environmental ***impacts***, the undertaking may prioritise targets related to the reduction of the impacts in absolute terms rather than in relative terms. When targets address the prevention or mitigation of social impacts, they may be specified in terms of their effects on human rights, welfare or positive outcomes for affected ***stakeholders***.

AR 23. The information on progress made towards achieving the ***targets*** may be presented in a comprehensive table, including information on the baseline and target value, milestones and achieved performance over the prior periods.

AR 24. When disclosing ***targets*** related to environmental matters, the undertaking shall identify those that are science-based.

AR 25. If the undertaking has ***targets***, it may disclose additional topic specific information defined in the following paragraphs.

ENVIRONMENT

Guidance / Additional information for Targets on Climate change

AR 26. Regarding **GHG emission reduction targets** for Scope 1, 2, and 3, the undertaking may also disclose the expected decarbonisation levers and their overall quantitative contributions towards achieving the GHG emission reduction targets (e.g., energy or material efficiency and consumption reduction, fuel switching, use of renewable energy, phase out or substitution of product and process).

AR 27. When setting climate change science-based **targets** or disclosing them, the undertaking may consider indications contained in resources like the Science Based Targets initiative (SBTi) for Small and Medium-Sized Enterprises (SMEs) by CDP, the United Nations Global Compact, the World Resources Institute, the WWF's publications issued by the WWF and BCG (2020) and Beyond Science-Based Targets: A Blueprint for Corporate Action on Climate and Nature.

AR 28. When disclosing information related to **GHG emission reduction targets**, the undertaking may specify the share of the target related to each respective **GHG emission Scope (1, 2 or 3)**. The undertaking may specify the method used to calculate **Scope 2 GHG emissions** included in the target (i.e., either the location-based or market-based method). If the boundary of the GHG **emission reduction target** diverges from that of the GHG **emissions**, the undertaking may disclose the respective percentages of Scope 1, 2, 3 and total GHG emissions covered by the target.

AR 29. When disclosing the information related to expected **decarbonisation levers**, the undertaking may explain:

(a) by reference to its climate change mitigation actions, the decarbonisation levers and their estimated quantitative contributions to the achievement of its GHG emission reduction targets broken down by each Scope (1, 2 and 3);

(b) whether it plans to adopt new technologies and the role of these in achieving its GHG emission reduction targets; and

(c) whether and how it has considered a diverse range of climate scenarios, including at least a climate scenario compatible with limiting global warming to 1.5°C, to detect relevant environmental-, societal-, technology-, market- and policy-related developments and determine its decarbonisation levers.

Guidance / Additional information for Targets on Pollution

AR 30. The undertaking may specify whether the **target** addresses shortcomings related to the Substantial Contribution criteria for Pollution Prevention and Control as defined in delegated acts adopted pursuant to Article 14(2) of Regulation (EU)

2020/852. Where the Do No Significant Harm (DNSH) criteria for Pollution Prevention and Control as defined in delegated acts adopted pursuant to Article 10(3), Article 11(3), Article 12(2), Article 13(2), and Article 15(2) of Regulation (EU) 2020/852 are not met, the undertaking may specify whether the target addresses shortcomings related those DNSH criteria.

SOCIAL

Guidance for disclosing targets related to own workforce, value chain workers, affected communities and consumers or end-users

AR 31. The description of the targets related to its **own workforce**, value chain workers, affected communities or consumers and end-users may include an explanation of whether they are intended to:

(a) reduce negative impacts on any one of the aforementioned groups of stakeholders,

(b) advance positive impacts on any one of the aforementioned groups of stakeholders, and/or

(c) manage material risks related to any one of the aforementioned groups of stakeholders.

Appendix B: Application Requirements for IR-3 on Policies related to own workforce.

This appendix is an integral part of the [draft] Section 3 – Policies, Actions and Targets related to Section 5 Social Metrics and has the same authority as the other parts of this [draft] Standard. It supports the application of Disclosure Requirement IR-3 for social and human rights matters with examples of disclosures:

Social and human rights matters	Examples of policies:
Secure employment	No-layoff policy, limits on renewing temporary contracts, employer provision of social protection where state provision is lacking
Working time	Limitations on overtime, long and split shifts, and night and weekend work, adequate lead time for scheduling
Adequate wages	Policy to ensure all people in own workforce receive an adequate wage
Social dialogue / existence of work councils / information, consultation and participation rights of workers	Policy to encourage institutions for social dialogue, regular information and consultation with worker representatives, consultation before final decisions on employment-related issues are reached
Freedom of association/Collective bargaining including the rate of workers covered by collective agreements	Non-interference in trade union formation and recruitment (including trade union access to undertakings), bargaining in good faith, recognition of, adequate time off for duties, facilities and dismissal protection for workers' representatives, no discrimination of trade union members and workers' representatives
Work-life balance	Provision of family leave, flexible working time, access to day care facilities for all workers
Health and safety	Coverage of all own workforce in H&S management system
Gender equality and equal pay for work of equal value	Policy for gender equality and equal pay for equal work
Training and skills development	Policy for enhancing skills and career prospects for employees
The employment and inclusion of people with disabilities	Policy for making workplaces accessible to persons with disabilities
Measures against violence and harassment in the workplace	Zero tolerance policy for violence and harassment at workplace
Diversity	Policy for inclusiveness (i.e. ethnic diversity or minority groups) and positive action.
Child labour	Policy for identifying where child labour occurs, identifying where exposure of young workers to hazardous work occurs and preventing risk of exposure
Forced labour	Policy for identifying where forced labour occurs and reducing risk of forced labour

Appendix C: Application Requirements for IR–3 Actions and resources to manage material impacts on own workforce, and approaches to mitigating material risks related to own workforce, and effectiveness of those actions

This appendix is an integral part of the [draft] Section 3 – Policies, Actions and Targets related to Section 5 Social Metrics and has the same authority as the other parts of this [draft] Standard. It supports the application of Disclosure Requirement IR-3 for social and human rights matters with examples of disclosures:

Social and human rights matters	Examples of actions:
Secure employment	Offer permanent contracts to employees with temporary contracts, implement plans for social protection where state provision is lacking
Working time	Shift work rotation, extend advance notice of scheduling, reduction of excessive overtime
Adequate wages	Negotiation of fair wages in collective bargaining agreements, verification that employment agencies pay a fair wage
Social dialogue / existence of work councils / information, consultation and participation rights of workers	Expansion of sustainability issues dealt with in social dialogue, increase in number of meetings, increase in resources for works councils
Freedom of association/Collective bargaining including the rate of workers covered by collective agreements	Expansion of sustainability issues dealt with in collective bargaining, increase in resources for workers' representatives
Work-life balance	Expand family leave eligibility and flexible working time arrangements, increasing provision of day care
Health and safety	Increase health & safety training, investment in safer equipment
Gender equality and equal pay for work of equal value	Targeted recruitment and promotion of women, reduction in pay gap through negotiation of collective bargaining agreements
Training and skills development	Skills audits, training to fill skills gaps
The employment and inclusion of people with disabilities	Increasing accessibility measures
Measures against violence and harassment in the workplace	Improving complaint mechanisms, increasing sanctions against violence and harassment, providing training for prevention to management
Diversity	Training on diversity and inclusion (including ethnicity considerations), targeted recruitment of underrepresented groups
Child labour	Age verification measures, partnerships with organizations to eliminate child labour, measures against worst forms of child labour

Social and human rights matters	Examples of actions:
Forced labour	Measures ensuring free consent to employment without threat of penalty, contracts in understandable language, freedom to terminate employment without penalty, disciplinary measures should not obligate labour, free consent to overtime, freedom of movement (including to exit workplace), fair treatment for migrant workers, monitoring employment agencies

[Draft] ESRS LSME

SECTION 4 ENVIRONMENT METRICS

DISCLAIMER

Section 4 *Environment* metrics is set out in paragraphs 1–73. The following appendices of Section 4 have the same authority as the main body of the [draft] Standard:
- *Appendix A: Application Requirements*,

Objective

1. The objective of the Environmental metrics in this section of this [draft] Standard is to provide users of sustainability statement with an understanding of the undertaking's environmental performance in relation to its material impacts and risks (and opportunities). This section should be read in conjunction with section 2 and 3 which define the implications of the undertaking`s material impacts and risk (and opportunities) on its strategy and business model and how the undertaking manages them through policies, actions and targets. This [draft] Section 4 covers Disclosure Requirements related to the sustainability matters in AR 23, Appendix A, Section 1 of this [draft] standard.

2. 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). In determining which information in this section should be included, the undertaking shall apply:

3. the provisions in paragraph 42 of Section 1 for metrics; and

4. the provisions in paragraph 38 of Section 1, which support also the determination of the details of narrative disclosure to be reported.

5. As defined in Section 1 Chapter 1.3 *Terminological conventions,* in this Section there are some information to be disclosed only in some defined circumstances described in the related requirement.

6. The metrics under E1 to E5 of this section of this [draft] Standard take into account the requirements of related EU legislation and regulation (i.e., EU Climate Law, Regulation (EU) 2019/2088 (SFDR), Regulation (EU) 2020/852 (the EU Taxonomy), Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation), and EBA Pillar 3 ESG risk disclosure requirements.

Climate Change – Disclosure Requirements (E1)

Disclosure Requirement E1-1– Energy consumption and mix

7. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's total energy consumption in absolute value and the share of ***renewable energy*** in its overall energy mix.

8. The undertaking shall disclose the total energy consumption in MWh related to its own operations and the share (%) from renewable sources[33].

9. Where the undertaking is also an energy producer, it shall disaggregate and disclose separately its non-renewable energy production and renewable energy production in MWh.

10. The undertaking shall disclose the breakdown of energy consumption by type of non-renewable sources of energy[34] (such as from fossil sources).

[33] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicator #5 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Share of non-renewable energy consumption and production").

[34] The breakdown serves as a reference for an additional indicator related to principal adverse impacts as set out by indicator #5 in Table 2 of the same Annex ("Breakdown of energy consumption by type of non-renewable sources of energy").

Energy intensity based on net revenue[35]

11. The undertaking shall provide information on the energy intensity (total energy consumption per net revenue) associated with activities in ***high climate impact sectors***[36]. The disclosure on energy intensity shall only be derived from the total energy consumption and net revenue from activities in ***high climate impact sectors***.

12. The undertaking shall specify the ***high climate impact sectors*** that are used to determine the energy intensity required by paragraph 9.

Disclosure Requirement E1-2– Gross Scopes 1, 2, 3 and Total GHG emissions

13. The objective of the Disclosure Requirement is to provide an understanding of the direct (Scope 1) and indirect (Scope 2 and 3) impacts of the undertaking on climate change, measured as its GHG emissions to the atmosphere.

14. The undertaking shall disclose its[37]:

    (a) gross Scope 1 GHG emissions in metric tonnes of CO2eq;

    (b) gross location-based Scope 2 GHG emissions in metric tonnes of CO2eq and, if applicable, the gross market-based Scope 2 GHG emissions in metric tonnes of CO2eq.;

    (c) the gross GHG emissions of each significant Scope 3 category, in metric tonnes of CO2eq.; and

    (d) total GHG emissions, as the sum of Scope 1, Scope 2 (using the location-based method) and the significant Scope 3 GHG emissions required by paragraphs (a) to (c)

GHG Intensity based on net revenue[7]

15. The undertaking shall disclose its GHG ***emissions*** intensity, this is total GHG emissions per net revenue (in metric tonnes of CO2eq per € million net revenue).

Disclosure Requirement E1-3 – GHG removals and storage projects

16. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's actions to permanently remove GHG from the atmosphere.

17. If the undertaking has developed GHG removals and storage projects within its own operations, or contributed to in its upstream and downstream value chain, it shall disclose the total amount of CO2eq associated with these projects, as well as the calculation assumptions, methodologies and frameworks applied.

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[35] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicator #6 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Energy consumption intensity per high impact climate sector").

[36] High climate impact sectors are those listed in NACE Sections A to H and Section L (as defined in Commission Delegated Regulation (EU) 2022/1288)

[37] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicators #1 and #2 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (respectively, "GHG emissions" and "Carbon footprint"). This information is aligned with the Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation), Articles 5 (1), 6 and 8 (1).

[7] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #3 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("GHG intensity of investee companies"). This information is aligned with Commission Delegated Regulation (EU) 2020/1818 (Climate eenchmark Regulation), Article 8 (1).

Pollution – Disclosure Requirements (E2)

Disclosure Requirement E2-1– Pollution of air, water and soil

18. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's pollutants *emissions* to air, *water* and *soil* in its own operations, its generation and use of microplastics and production, use, distribution, commercialisation and import/export of *substances of concern* and *substances of very high concern* on their own, in mixtures or in articles.

19. The undertaking shall disclose the amounts of:

    (a) each pollutant emitted to air, water and soil listed in Annex II of Regulation (EC) 2024/1244 of the European Parliament and of the Council (Industrial Emissions Portal "IEPR" Regulation) for which the applicable threshold value at facility level is exceeded, with the exception of emissions of GHGs which are disclosed in accordance with E1 Climate Change;

    (b) microplastics generated or used by the undertaking, including in a separate breakdown, the downstream unintentional generation of microplastics from plastics (i.e. unintentionally produced when larger pieces of plastics like car tires or synthetic textiles wear and tear);

    (c) the total amounts of substances of concern (SOC) that are generated or used during the production or that are procured, and the total amounts of substances of concern that leave its facilities as emissions, as products, or as part of products or services. In cases where substances of concern are also substances of very high concern (SVHC), the undertaking shall present a breakdown of amounts with respect to SVHC .

Water and Marine Resources - Disclosure Requirements (E3)

Disclosure Requirement E3-1 – Water consumption

20. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's ***water consumption***.

21. If the undertaking has production processes in place which significantly consume water (such as thermal energy processes like drying or power production; production of goods, agricultural irrigation, etc), it shall disclose information on water consumption performance in its own operations, including:

    (a) the total water consumption in m3;

    (b) total water consumption in m3 in areas at water risk, including areas of high-water stress.

22. The undertaking shall provide information on its ***water intensity***: total ***water consumption*** in its own operations in m^3 per million EUR net revenue.

23. The undertaking shall disclose other information on water consumption performance in its own operations, in addition to the ones required by paragraph 19, such as total water recycled and ***reused*** in m^3 . The undertaking may also disclose the volume of total water stored and changes in storage in m^3.

Biodiversity and ecosystems – Disclosure Requirements (E4)

Disclosure Requirement E4-1 – Impact metrics related to biodiversity and ecosystems change

24. The objective of this Disclosure Requirement is to enable an understanding of the performance of the undertaking against *impacts* identified as material in the *materiality assessment* on *biodiversity* and *ecosystems* change.

25. If the undertaking has identified owned, leased or managed ***sites*** located in or near ***biodiversity-sensitive areas*** which are negatively affected (see paragraph 19 (a) in Set 1 ESRS E4) by the activity of those sites, the undertaking shall disclose the number and area (in hectares) of sites in or near these ***protected areas*** or key ***biodiversity*** areas.

26. If the undertaking has concluded that it directly contributes to ***impact drivers*** of ***biodiversity loss*** such as ***land-use change, freshwater-use change and/or sea-use change***, it shall disclose relevant metrics. For that purpose the undertaking may consider selecting metrics related to land-use change, freshwater-use change and/or sea-use change based on Set 1 ESRS E4 paragraph 38 or land use metrics relate to E4 Application Requirement 34.

27. If the undertaking has concluded that it has material impacts on biodiversity, such as impacts on the state of species, impacts on the extent and condition of ecosystems or impacts on ecosystems services to which it has directly contributed to, it may report ***metrics*** it considers relevant, such as the ones in Set 1 ESRS E4 paragraph 40 and 41.

Resource use and Circular Economy – Disclosure Requirements (E5)

Disclosure Requirement E5-1 – Resource inflows

28. The objective of this Disclosure Requirement is to enable an understanding of the impacts and risks originating from the resource use in the undertaking's own operations and value chain.

29. The undertaking shall disclose:

    (a) a description of its material impacts and risks originating from resource inflows used in the undertaking's own operations and along its upstream value chain;

    (b) the annual mass-flow of relevant materials used for its own operations, including the percentage of biological materials (and biofuels used for non-energy purposes) used to manufacture the undertaking's products and services (including packaging); and

    (c) the percentage of secondary material (recycled or reused) used as inflow.

Disclosure Requirement E5-2 – Resource outflows

30. The objective of this Disclosure Requirements is to understand of how the undertaking contributes to ***circular economy*** through its ***waste*** reduction and ***waste management*** strategy.

Products and materials

31. The undertaking shall disclose information on its material resource outflows including a description of the key products and materials that come out of the undertaking's production process that are designed along circular economy principles.

Waste

32. The undertaking shall disclose:

(a) the total annual generation of waste broken down by type (non-hazardous and hazardous);

(b) the total annual waste diverted to recycling or reuse and the total amount and the percentage of non-recycled waste (by weight and on a wet basis).

33. The undertaking shall also disclose the total amount of radioactive waste generated by the undertaking, where radioactive waste is defined in Article 3(7) of Council Directive 2011/70/Euratom[38].

Anticipated financial effects from material environmental-related matters – Disclosure Requirements (E6)

34. The objective of this Disclosure Requirement is to provide an understanding of *the anticipated financial effects* to the undertaking due to environmental-related risks. These risks arise from climate change, pollution, water and marine resources, biodiversity and ecosystems and circular economy. As part of the objective, it should be possible to understand how these risks have (or could reasonably be expected to have) a material influence on the undertaking's financial position, financial performance and cash flows over the short-, medium- and long-term.

35. The undertaking shall disclose by environmental topic (climate change, pollution, water and marine resources, ecosystems and biodiversity, and circular economy) a brief description of how the material risks identified in "Disclosure Requirement 7 (SBM-3)" in section 2 of this [draft] standard have (or could reasonably be expected to have) a material influence on the undertaking's financial position, financial performance and cash flows over the short-, medium- and long-term).

Climate change

36. In particular for climate change and in addition to the information on anticipated financial effects required under SBM-3 in Section 2 of this [draft] standard, the undertaking shall disclose:

(a) in relation to material ***physical risks:***

i. proportion (percentage) of assets at material physical risk before considering climate change adaptation actions, disaggregated by acute and chronic physical risk; and

ii. the location of significant assets at material physical risk.

(b) in relation to material transition risks:

i. if the undertaking is operating in high-impact sectors, the proportion (percentage) of assets and net revenue from its business activities at material transition risk over the short-, medium- and long-term before considering climate mitigation actions; and

ii. a breakdown (number of buildings per class) of the undertaking's real estate assets by energy efficiency classes (A to F, or if the building has no energy efficiency rating).

[38] Council Directive 2011/70/Euratom of 19 July 2011 establishing a Community framework for the responsible and safe management of spent fuel and radioactive waste (OJ L 199, 2.8.2011, p. 48). This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #9 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 regarding disclosure rules on sustainable investments ("Hazardous waste and radioactive waste ratio").

Appendix A: Application Requirements

This Appendix is an integral part of this Section of this [draft] Standard. It supports the application of the requirements set for in paragraphs 1 to 38 and has the same authority as the other parts of this [draft] Standard.

Application Requirement – E1 to E5

AR 1. When preparing the information required to disclose metrics under E1 to E5, the undertaking may disclose the calculation assumptions and limitations, methodologies and frameworks applied by the undertaking and any changes in methodologies made over time and why they occurred. If applicable, it shall also specify whether the data is sourced from direct measurement, from sampling or extrapolation, or estimations.

AR 2. The undertaking may also describe the process and frequency of monitoring the metrics disclosed under E1 to E5.

Application Requirements-Climate Change E1

Disclosure Requirement E1-1 – Energy consumption and mix

Calculation guidance

AR 3. When preparing the information on energy consumption required under paragraph 6 the undertaking shall:

(a) only report energy consumed from processes owned or controlled by the undertaking applying the same perimeter applied for reporting GHG Scopes 1 and 2 emissions;

(b) exclude feedstocks and fuels that are not combusted for energy purposes. The undertaking that consumes fuel as feedstocks can disclose information on this consumption separately from the required disclosures;

(c) ensure all quantitative energy-related information is reported in either Mega-Watt-hours (MWh) in Lower Heating Value or net calorific value. If raw data of energy-related information is only available in energy units other than MWh (such as Giga-Joules (GJ) or British Thermal Units (Btu)), in volume units (such as cubic feet or gallons) or in mass units (such as kilograms or pounds), they shall be converted to MWh using suitable conversion factors (see for example Annex II of the Fifth Assessment IPCC report). Conversion factors for fuels shall be made transparent and applied in a consistent manner;

(d) ensure all quantitative energy-related information is reported as final energy consumption, referring to the amount of energy the undertaking actually consumes using for example the table in Annex IV of Directive 2012/27 of the European Parliament and of the Council on energy efficiency;

(e) avoid double counting fuel consumption when the undertaking generates electricity from either a non-renewable or renewable fuel source and then consumes the generated electricity. In such case, the energy consumption shall be counted only once under fuel consumption;

(f) not offset energy consumption even if on site generated energy is sold to and used by a third party;

(g) account for renewable hydrogen as a renewable fuel. Hydrogen that is not completely derived from renewable sources shall be included under "fuel consumption from other non-renewable sources"; and

(h) adopt a conservative approach when splitting the electricity, steam, heat or cooling between renewable and non-renewable sources based on the approach applied to calculate market-based Scope 2 GHG emissions. The undertaking shall only consider these energy consumptions as deriving from renewable sources if the origin of the purchased energy is clearly defined in the contractual arrangements with its suppliers (renewable power purchasing agreement, standardised green electricity tariff, market instruments like Guarantee of Origin from renewable sources in Europe or similar instruments like Renewable Energy Certificates in the US and Canada).

AR 4. The information on energy consumption and mix may be presented using the following tabular format.

Energy consumption and mix	**Comparative**	**Year N**
(1) Non-renewable energy consumption (MWh)		
(2) Consumption from renewable sources (MWh)		
Total energy consumption (MWh) **(calculated as the sum of lines 1 and 2)**		

Energy intensity based on net revenue

Calculation guidance

AR 5. When preparing the information on energy intensity required under paragraph 9, the undertaking shall:

(a) calculate the energy intensity ratio using the following formula:

$$\frac{Total\ energy\ consumption\ from\ activities\ in\ high\ climate\ impact\ sectors\ (MWh)}{Net\ revenue\ from\ activities\ in\ high\ climate\ impact\ sectors\ (Monetary\ unit)};$$

(b) express the total energy consumption in MWh and the net revenue in monetary units (e.g., Euros);

(c) the numerator and denominator shall only consist of the proportion of the total final energy consumption (in the numerator) and net revenue (in the denominator) that are attributable to activities in high climate impact sectors. In effect, there should be consistency in the scope of both the numerator and denominator;

(d) calculate the total energy consumption in line with the requirement in paragraph 6;

(e) calculate the net revenue in line with the accounting standards requirements applicable for the financial statements, i.e., IFRS 15 Revenue from Contracts with Customers or local GAAP requirements.

AR 6. The quantitative information may be presented in the following table.

Energy intensity per net revenue	Comparative	N	% N / N-1
Total energy consumption from activities in high climate impact sectors per net revenue from activities in high climate impact sectors (MWh/Monetary unit)			

Disclosure Requirements E1-2 – Gross Scopes 1, 2, 3 and Total GHG emissions

Calculation guidance

AR 7. When preparing the information for reporting GHG ***emissions*** as required by paragraph 12, the undertaking shall:

consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004). The undertaking may consider Commission Recommendation (EU) 2021/2279[OB] or the requirements stipulated by ISO 14064-1:2018. If the undertaking already applies the GHG accounting methodology of ISO 1:2018, it shall nevertheless comply with the requirements of this standard (e.g., regarding reporting boundaries and the disclosure of market-based Scope 2 GHG emissions);

(a) disclose the emissions factors used to calculate or measure GHG emissions accompanied by the reasons why they were chosen, and provide a reference or link to any calculation tools used;

(b) include emissions of CO2, CH4, N2O, HFCs, PFCs, SF6, and NF3. Additional GHG may be considered when significant; and

(c) use the most recent Global Warming Potential (GWP) values published by the IPCC based on a 100-year time horizon to calculate CO2eq emissions of non-CO2 gases.

AR 8. In line with Section 1 chapter 3.7, the undertaking shall disaggregate information on its GHG emissions as appropriate. For example, the undertaking may disaggregate its Scope 1, 2, 3, or total GHG **emissions** by country, operating segments, economic activity, subsidiary, GHG category (CO_2, CH_4, N_2O, HFCs, PFCs, SF_6, NF_3, and other GHG considered by the undertaking) or source type (stationary combustion, mobile combustion, process emissions and fugitive emissions).

AR 9. An undertaking might have a different reporting period from some or all of the entities in its value chain. In such circumstances, the undertaking is permitted to measure its GHG emissions in accordance with paragraph 12 using information for reporting periods that are different from its own reporting period if that information is obtained from entities in its value chain with reporting periods that are different from the undertaking's reporting period, on the condition that:

(a) the undertaking uses the most recent data available from those entities in its value chain to measure and disclose its greenhouse gas emissions;

(b) the length of the reporting period is the same; and

(c) the undertaking discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions) that occur between the reporting

dates of the entities in its value chain and the date of the undertaking's general purpose financial statements.

AR 10. When preparing the information on gross ***Scope 1 GHG emissions*** required under paragraph 12(a), the undertaking shall:

(a) calculate or measure GHG emissions from stationary combustion, mobile combustion, process emissions and fugitive emissions; and use suitable activity data that include the non-renewable fuel consumption;

(b) use suitable and consistent emission factors;

(c) disclose biogenic emissions of CO2 from the combustion or biodegradation of biomass separately from the Scope 1 GHG emissions, but include emissions of other types of GHG (in particular CH4 and N2O);

(d) not include any removals, or any purchased, sold or transferred carbon credits or GHG allowances in the calculation of Scope 1 GHG emissions;

(e) for activities reporting under the EU ETS, report on Scope 1 emissions following the EU ETS methodology. The EU ETS methodology may also be applied to activities in geographies and sectors that are not covered by the EU ETS;

AR 11. When preparing the information on gross ***Scope 2 GHG emissions*** required under paragraph 18, the undertaking shall:

(a) consider the principles and requirements of the GHG Protocol Scope 2 Guidance (version 2015, in particular the Scope 2 quality criteria in chapter 7.1 relating to contractual instruments). It may also consider Commission Recommendation (EU) 2021/2279 or the relevant requirements for the quantification of indirect GHG emissions from imported energy in EN ISO 14064-1:2018;

(b) include purchased or acquired electricity, steam, heat, and cooling consumed by the undertaking;

(c) avoid double counting of GHG emissions reported under Scope 1 or 3;

(d) apply the location-based, and, if applicable, market-based methods to calculate Scope 2 GHG emissions and provide information on the share and types of contractual instruments. Location-based method quantifies Scope 2 GHG emissions based on average energy generation emission factors for defined locations, including local, subnational, or national boundaries (GHG Protocol, "Scope 2 Guidance", Glossary, 2015). Market-based method quantifies Scope 2 GHG emissions based on GHG emissions emitted by the generators from which the reporting entity contractually purchases electricity bundled with instruments, or unbundled instruments on their own (GHG Protocol, "Scope 2 Guidance", Glossary, 2015); in this case, the undertaking may disclose the share of market-based scope 2 GHG emissions linked to purchased electricity bundled with instruments such as Guarantee of Origins or Renewable Energy Certificates. The undertaking shall provide information about the share and types of contractual instruments used for the sale and purchase of energy bundled with attributes about the energy generation or for unbundled energy attribute claims.

(e) disclose biogenic emissions of CO2 from the combustion or biodegradation of biomass separately from the Scope 2 GHG emissions but include emissions of other types of GHG (particularly CH4 and N2O). In case the emission factors applied do not separate the percentage of biomass or biogenic CO2, the undertaking shall disclose this. In case GHG emissions other than CO2 (particularly CH4 and N2O) are not available for, or excluded from, location-based grid average emissions factors or with the market-based method information, the undertaking shall disclose this; and

(f) not include any removals, or any purchased, sold or transferred carbon credits or GHG allowances in the calculation of Scope 2 GHG emissions.

AR 12. When preparing the information on gross ***Scope 3 GHG emissions*** required under paragraph 19, the undertaking shall:

(a) consider the principles and provisions of the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011); and it may consider Commission Recommendation (EU) 2021/2279 or the relevant requirements for the quantification of indirect GHG emissions from EN ISO 14064-1:2018;

(b) if it is a financial institution, consider the GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting Financial (PCAF), specifically part A “Financed Emissions” (version December 2022);

(c) screen its total Scope 3 GHG emissions based on the 15 Scope 3 categories identified by the GHG Protocol Corporate Standard and GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011) using appropriate estimates. Alternatively, it may screen its indirect GHG emissions based on the categories provided by EN ISO 14064-1:2018 clause 5.2.4 (excluding indirect GHG emissions from imported energy);

(d) identify and disclose its significant Scope 3 categories based on the magnitude of their estimated GHG emissions and other criteria provided by GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011, p. 61 and 65-68) or ISO 14064-1:2018 Annex H.3.2, such as financial spend, influence, related transition risks and opportunities or stakeholder views;

(e) calculate or estimate GHG emissions in significant Scope 3 categories using suitable emissions factors;

(f) update Scope 3 GHG emissions in each significant category every year on the basis of current activity data; update the full Scope 3 GHG inventory at least every 3 years or on the occurrence of a significant event or a significant change in circumstances (a significant event or significant change in circumstances can, for example, relate to changes in the undertaking’s activities or structure, changes in the activities or structure of its upstream and downstream value chain(s), a change in calculation methodology or in the discovery of errors);

(g) disclose the extent to which the undertaking’s Scope 3 GHG emissions are measured using inputs from specific activities within the entity’s upstream and downstream value chain, and disclose the percentage of emissions calculated using primary data obtained from suppliers or other value chain partners;

(h) disclose a list of Scope 3 GHG emissions categories included in and excluded from the inventory with a justification for excluded Scope 3 categories;

(i) disclose biogenic emissions of CO2 from the combustion or biodegradation of biomass that occur in its upstream and downstream value chain separately from the gross Scope 3 GHG emissions, and include emissions of other types of GHG (such as CH4 and N2O), and emissions of CO2 that occur in the life cycle of biomass other than from combustion or biodegradation (such as GHG emissions from processing or transporting biomass) in the calculation of Scope 3 GHG emissions; and

(j) not include any removals, or any purchased, sold or transferred carbon credits or GHG allowances in the calculation of Scope 3 GHG emissions.

AR 13. When preparing the information on the total ***GHG emissions*** required under paragraph 11d, the undertaking shall apply the following formula to calculate the total GHG emissions (location-based):

$$\text{Total GHG emissions}_{location-based}\ (\text{t CO}_2\text{eq}) = \text{Gross Scope 1} + \text{Gross Scope 2}_{location-based} + \text{Gross Scope 3 Total}$$

AR 14. The undertaking may also disclose total GHG emissions derived from the market-based method while measuring the underlying Scope 2 GHG emissions, using the formula

$$Total\ \text{GHG emissions}_{market-based}\ (\text{t CO}_2\text{eq}) = \text{Gross Scope 1} + \text{Gross Scope 2}_{market-based} + \text{Gross Scope 3}$$

AR 15. The undertaking may disclose its total GHG **emissions** disaggregated by Scopes 1 and 2, as well as total and/or significant Scope 3 in accordance with the table below.

	Retrospective				Milestones and target years			
	Base year	Compa-rative	N	% N / N-1	2025	2030	(2050)	Annual % target / Base year
Scope 1 GHG emissions								
Gross Scope 1 GHG emissions (tCO_2eq)								
Percentage of Scope 1 GHG emissions from regulated emission trading schemes (%)								
Scope 2 GHG emissions								
Gross location-based Scope 2 GHG emissions (tCO_2eq)								
Gross market-based Scope 2 GHG emissions (tCO_2eq) (if applicable)								
Significant Scope 3 GHG emissions*								
Total Gross indirect (Scope 3) GHG emissions (tCO_2eq)								
1 Purchased goods and services								
Optional sub-category: Cloud computing and data centre services								
2 Capital goods								
3 Fuel and energy-related activities (not included in Scope 1 or Scope 2)								
4 Upstream transportation and distribution								
5 Waste generated in operations								
6 Business travels								
7 Employee commuting								
8 Upstream leased assets								

9 Downstream transportation								
10 Processing of sold products								
11 Use of sold products								
12 End-of-life treatment of sold products								
13 Downstream leased assets								
14 Franchises								
15 Investments								
Total GHG emissions								
Total GHG emissions (location-based) (tCO_2eq)								
Total GHG emissions (market-based) (tCO2eq)								

* Only significant Scope 3 categories are to be reported.

AR 16. The Scope 3 GHG ***emissions*** may also be presented by according to the indirect emission categories defined in EN ISO 14064-1:2018.

AR 17. If it is material for the undertaking's Scope 3 emissions, it shall disclose the GHG ***emissions*** from purchased cloud computing and data centre services as a subset of the overarching ***Scope 3 category*** "upstream purchased goods and services".

AR 18. When disclosing its gross greenhouse gas (GHG) emissions, the undertaking may refer to online calculators, databases and tools provided by recognised sources, such as the GHG Protocol.

GHG intensity based on net revenue

Calculation guidance

AR 19. When disclosing the information on GHG intensity based on net revenue required under paragraph 21, the undertaking shall:

(a) calculate the GHG intensity ratio by the following formula:

$$\frac{Total\ GHG\ emissions\ (t\ CO_2eq)}{Net\ revenue\ (Monetary\ unit)};$$

(b) express the total GHG emissions in metric tonnes of CO2eq and the net revenue in monetary units (e.g., Euros) and present the results for the market-based and location-based method;

(c) include the total GHG emissions in the numerator and overall net revenue in the denominator;

(d) calculate the total GHG emissions as required by paragraphs 12 (d) and 21; and

(e) calculate the net revenue in line with the requirements in accounting standards applied for financial statements, i.e., IFRS 15 or local GAAP.

AR 20. Small and non-complex credit institutions (see Section 1 paragraph 2b)) may replace net revenue with a different financial indicator, until a sectoral standard is established.

Disclosure Requirement E1-3 – GHG removals and storage projects

GHG removals and storage in own operations

AR 21. In addition to their GHG emission inventories, undertakings shall provide transparency on how and to what extent they either enhance natural sinks or apply technical solutions to remove GHGs from the atmosphere in their own operations. While there are no generally accepted concepts and methodologies for accounting for GHG removals, this [draft] Standard aims to increase transparency on the undertaking's efforts to remove GHGs from the atmosphere (paragraph 15).

AR 22. The requirement in paragraph 17 shall only be reported by those undertakings that developed any GHG removal and storage project in its own operations, or contributed to in its upstream and downstream value chain. If no such projects are in place, undertakings are not expected to provide any information on GHG removals and storage.

Calculation guidance

AR 23. When preparing the information on ***GHG removals and storage*** from the undertaking's own operations and its upstream and downstream value chain required under paragraph 19, the undertaking may:

(a) break down its GHG removals and storage by removal activity;

(b) consider, as far as applicable, the GHG Protocol Corporate Standard (version 2004), Product Standard (version 2011), Agriculture Guidance (version 2014), Land use, land-use change, and forestry Guidance for GHG project accounting (version 2006);

(c) if applicable, explain the role of removals for its climate change mitigation policy;

(d) account for the GHG emissions associated with a removal activity, including transport and storage, under Disclosure Requirement E1-2 (Scopes 1, 2 or 3). To increase transparency on the efficiency of a removal activity, including transport and storage, the undertaking may disclose the GHG emissions associated with this activity (e.g., GHG emissions from electricity consumption of direct air capture technologies) alongside, but separately from, the amount of removed GHG emissions;

(e) in case of a reversal, account for the respective GHG emissions as an offset for the removals in the reporting period;

(f) use the most recent GWP values published by the IPCC based on a 100-year time horizon to calculate CO2eq emissions of non-CO2 gases and describe the assumptions made, methodologies and frameworks applied for calculation of the amount of GHG removals;

(g) describe how the risk of non-permanence is managed, including determining and monitoring leakage and reversal events, as appropriate.

AR 24. The quantitative information on GHG removals may be presented by using the following tabular format.

Removals	Comparative	N	% N / N-1
GHG removal activity 1 (e.g.., forest restoration)	-		

Removals	Comparative	N	% N / N-1
GHG removal activity 2 (e.g.., direct air capture)	-		
…	-		
Total GHG removals from own operations (tCO_2eq)			
GHG removal activity 1 (e.g.., forest restoration)	-		
GHG removal activity 2 (e.g.., direct air capture)	-		
…	-		
Reversals (tCO_2eq)			

Application Requirements-Pollution (E2)

Disclosure Requirement E2-1 – Pollution of air, water and soil

Emissions of pollutants to air, water and soil

AR 25. Considering paragraph 38(a), if the undertaking is not required to disclose its pollutants emissions by law, but it already voluntarily reports information on such pollutants according to an Environmental Management System such as Eco-Management and Audit Scheme (EMAS), then it may choose to voluntarily disclose the pollutants it emits to air, water and soil, with the respective amounts.

AR 26. The amounts of **pollutants** shall be calculated and presented for the aggregated amount of each pollutant individually, but the mass of different pollutants shall not be added together. For example, an undertaking with two factories that emit mercury and lead, shall add the lead emission from the two factories, but not add lead and mercury emissions. The units of reporting shall be appropriate mass units, for example in tonnes or kilogrammes, depending on type and quantities of each pollutant.

AR 27. The ***metrics*** to be disclosed under paragraph 38(a) 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*** or intensive livestock farm covered by the Industrial and Livestock Rearing Emissions Directive (IED 2.0), amending the Industrial Emissions Directive (IED). The IED 2.0 applies to some 75,000 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, rearing of any mix of pigs or poultry representing 380 livestock units or more, tanning of hides, or slaughterhouses. In these cases, the installation must already report to the competent authority the pollutants released to air, water and ***soil***, and the data is publicly available at the Industrial Emissions Portal Regulation (IEPR), replacing 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 statement.

AR 28. Likewise, if under an EMAS certification an undertaking has been identified as having to monitor and report on the pollutants listed in the E-PRTR, these are in principle relevant aspects for the undertaking to include in its sustainability report.

AR 29. If an undertaking has only one facility or operates in only one facility, and if its pollution data is already publicly available, the undertaking may refer to the document where such information is provided instead of reporting it once again. Likewise, if the undertaking publishes an organisation-wide EMAS report that incorporates pollution data, it can include it in the sustainability report by reference.

AR 30. To report information on pollutants in the sustainability report, the undertaking should indicate the type of pollutant material being reported alongside the amount emitted to air, water and soil in a suitable mass unit (e.g., t or kg).

AR 31. Below can be found an example of how undertakings may present information on their emissions to air, water and soil divided by pollutant type.

AR 32. Pollutant	AR 33. Emissions (kg)	AR 34. Medium of release (air, water, soil)
AR 35. e.g., Cadmium and compounds	AR 36. 10	AR 37. Water
Type of pollutant 2		
Type of pollutant 3		

AR 38. The information required under this Disclosure Requirement shall be provided at the level of the reporting undertaking. However, the undertaking may disclose additional breakdown including information at **site** level or a breakdown of its **emissions** by type of source, by sector or by geographical area.

AR 39. Where the undertaking's activities are subject to Directive (EU) 2024/1785 of the European Parliament and of the Council amending Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions (IED 2.0) and relevant Best Available Techniques Reference Documents (**BREFs**), irrespective of whether the activity takes place within the European Union or not, the undertaking may disclose the following additional information:

(a) a list of ***installations*** operated by the undertaking that fall under the IED and EU ***BAT Conclusions***;

(b) a list of any non-compliance ***incidents*** or enforcement ***actions*** necessary to ensure compliance in case of breaches of permit conditions;

(c) the actual performance, as specified in the EU-***BAT conclusions*** for industrial ***installations***, and comparison of the undertaking's environmental performance against "emission levels associated with the best available techniques" the (***BAT-AEL***) as described in EU-BAT conclusions;

(d) the actual performance of the undertaking against "environmental performance levels associated with the ***best available techniques (BAT-AEPLs)*** provided that they are applicable to the sector and ***installation***; and

(e) a list of any compliance schedules or derogations granted by competent authorities according to Art. 15(4) Directive 2010/75/EU that are associated with the implementation of *BAT - AELs*.

AR 40. The amounts referred in paragraph 38 shall include the emissions from those facilities over which the undertaking has financial control and those over which it has ***operational control*** It shall include only the emissions from facilities for which the applicable threshold value specified in Annex II of Regulation (EU) 2024/1244 is exceeded.

Microplastics

AR 41. The information to be provided on microplastics under paragraph 38(b) shall include, as a minimum, information on the microplastics amounts that the undertaking generates or uses. These refer to intentional or unintentional generation or use both through production processes and procurement. For reporting purposes, microplastics leaving the facilities of the undertaking in the form of products, parts of products or services, or emissions are to be considered. Microplastics that stay within the facilities, that are used in production processes and that represent inventory used for business processes need not be reported, as they do not leave the facilities.

Substances of concern and substances of very high concern

AR 42. In order for the information to be complete, **substances** in the undertaking's own operations and those procured shall be included (e.g., embedded in ingredients, semi-finished products, or the final product).

AR 43. The volume of **pollutants** shall be presented in mass units, for example tonnes or kilogrammes or other mass units appropriate for the volumes and type of pollutants being released.

AR 44. The applicability of this Disclosure Requirement depends on the relevant regulations and legal frameworks that require the monitoring of substances for management purposes.

AR 45. As per the ESRS Glossary, Substances of Concern constitute a broader group of substances, including: (a) the Substances of Very High Concern meeting the criteria laid down in Art. 57 and 59 of the Regulation (EC) No 1907/2006 (REACH; (b) the substances classified in one of the hazard classes or hazard categories, and as listed in Part 3 (Table 3.1) of Annex VI of Regulation (EC) No 1272/2008 (CLP); (c) and the substances that negatively affect the reuse and recycling of materials in the products in which they are present, as defined in the Regulation (EU) 2024/1781 (ESPR).

AR 46. The list of substances covered by point (a) is available by consulting the 'Candidate List of substances of very high concern for Authorisation' managed by the European Chemicals Agency (ECHA), pursuant to Article 59 (10) of the REACH Regulation. The list of substances covered by point (b) is available by consulting the table of harmonised entries in Annex VI to CLP, containing all updates3 to the harmonised classification and labelling of hazardous substances, which are available in Table 3 of Annex VI to the CLP Regulation, managed by the ECHA. The ECHA also provides a database (C&L Inventory) to filter Annex VI by specific hazard classes. As for point (c), the presence of substances of concern should be traceable throughout the specific products lifecycle and constitutes one specific Ecodesign requirement (Article 5) - the information requirement shall include, among others, (i) name or numerical code of the substances present in the product; (ii) location of the substances of concern within the product; (iii) concentration, maximum concentration or concentration range of the substances of concern, at the level of the product, its relevant components, or spare parts (Article 7.5).

AR 47. Undertakings may refer to the regulatory sources – the REACH and CLP regulations – to identify information on the definitions and lists of substances as well as for further indications on hazard classes.

AR 48. The information provided under this Disclosure Requirement may refer to information the undertaking is already required to report under other existing legislation (i.e., Directive 2010/75/EU or Regulation (EC) No 166/2006 "E-PRTR").

Application Requirements-Water and Marine Resources (E3)

Disclosure Requirement E3-1 – Water consumption

AR 49. The requirements on water consumption under paragraph 20 (a) and (b) may not apply for undertakings that solely withdraw water from the public water network and discharge it into the sewer (e.g. office services), while they may be applicable to undertakings whose operations imply water evaporation (e.g. drying, power production) or water being embedded in products (e.g. food production).

AR 50. The undertaking may also disclose its total water withdrawal, i.e., the amount of water drawn into the boundaries of the organisation (or facility).

AR 51. When disclosing information required by paragraph 21, the undertaking may provide additional intensity ratios based on other denominators.

Application Requirements-Biodiversity and ecosystems (E4)

Disclosure Requirement E4-1 – Impact metrics related to biodiversity and ecosystems change

AR 52. Methodologies available to collect data and measure the undertakings' ***impacts*** on **biodiversity** and **ecosystems** may be separated into three categories as follows:

(a) primary data: collected in situ using on the ground surveys;

(b) secondary data: including geospatial data layers that are overlaid with geographic location data of business activities:

(c) at the species level, data layers on the ranges of different species can be used to predict the species that may be present at different locations. This includes operation sites and sourcing locations. Different range layers will have differing levels of accuracy depending on certain factors (e.g., whether species ranges have been refined based on availability of habitat). Information on the threat status of the species, and the activities that threaten them, can provide an indication of the likely contribution that business activities may be having on driving population trends and threat status;

(d) at the ecosystem level, data layers reflecting change in the extent and condition of ecosystems can be applied, including levels of habitat fragmentation and connectivity;

(e) modelled biodiversity state data: Model-based approaches are commonly used for measuring ecosystem level indicators (e.g., extent, condition, or function). Models quantify how the magnitude of different pressures affects the state of biodiversity. These are referred to as pressure-state relationships and are based on globally collected data. Modelling results are applied locally to estimate how undertaking-level pressures will cause changes in ecosystem condition. An impact driver generally has three main characteristics: magnitude (e.g., amount of contaminant, noise intensity), spatial extent (e.g., area of land contaminated) and temporal extent (duration of persistence of contaminant).

AR 53. The undertaking may disclose, for example, land cover change, which is the physical representation of the drivers "habitat modification" and "industrial and domestic activities", i.e., the man-made or natural change of the physical properties of Earth's surface at a specific location.

AR 54. Land cover is a typical variable that can be assessed with earth observation data.

AR 55. When reporting on material **impacts** related to the **ecosystems**, the undertaking may, in addition to the extent and condition of ecosystems, also consider the functioning of ecosystems by using:

(a) a metric that measures a process or function that the ecosystem completes, or that reflects the ability of the ecosystem to undertake that specific process or function: e.g., net primary productivity, which is a measure of plant productivity based on the rate at which energy is stored by plants and made available to other species in the ecosystem. It is a core process that occurs for ecosystems to function. It is related to many factors, such as species diversity, but does not measure these factors directly; or

(b) a metric that measures changes to the population of scientifically identified species under threat.

AR 56. At the ***ecosystem*** level, data layers reflecting change in the extent and condition of **ecosystems** may be applied, including levels of **habitat fragmentation** and connectivity.

Application Requirements- Resource use and Circular Economy (E5)

Disclosure Requirement E5-1 – Resource inflows

AR 57. The disclosure required by paragraph 27 (a), a description of its impacts and risks originating from ***resource inflows*** used in the undertaking's own operations and along its upstream value chain, it may distinguish between: a) materials, including: i) raw materials, distinguishing between critical raw materials and rare earths; ii) ***associated process materials***; iii) semi-manufactured goods or parts; b) products, including several categories such as ***packaging***, IT equipment, textiles, furniture, buildings, heavy machinery, mid-weight machinery, light machinery, heavy transport, mid-weight transport, light transport and warehousing equipment; c) water; c) property, plant and equipment. When describing the relevant resource inflows that generate IROs, the undertaking shall explain what type it is referring to. Examples include raw materials (e.g. wood, ores), products (e.g. machinery), goods, semi-manufactured goods, or parts used as input into its products and services (e.g. electronic components).

AR 58. When assessing the materiality of resource inflows, the undertaking may consider both the volume or weight of specific materials and their impact on operations. The undertaking may use the following materiality ratio formula to determine if a resource inflow is material:

$$ratio\ of\ specfic\ resource\ inflows = (\frac{Volume\ of\ specific\ resource\ inflow\ (t)}{Total\ resource\ inflows\ (t)})x\ 100$$

AR 59. While specific thresholds for materiality may vary depending on the context and industry, inflows with higher ratios typically warrant disclosure due to their potential impact on the undertaking's sustainability and operational performance.

AR 60. The ***resource inflows*** to be considered for calculation of ***metrics*** mentioned in paragraphs 27 are the ones considered to expose the undertaking to material impacts or risks and not all resource inflows the undertaking is sourcing.

AR 61. The reported usage data are to reflect the material in its original state, and not to be presented with further data manipulation, such as reporting it as “dry weight”.

AR 62. The annual mass-flow (see paragraph 27 (b)) is an indicator aligned with the EMAS requirements on efficiency of material consumption and it illustrates an undertaking's dependency on specific materials in its operations (e.g., wood and steel for the construction industry). The undertaking is here required to provide information on the materials it uses, including both the materials acquired from suppliers and those sourced internally from production. To compute the annual mass flow of the relevant materials it has used, the undertaking will need to first identify the specific relevant materials on which its operations are dependent and for which material efficiency needs to be evaluated (e.g., material efficiency of wood). If different types of materials are used, the undertaking will need to provide separately the annual mass flow (i.e., total weight for each relevant material used; e.g., tonnes of wood purchased) for each relevant material in an appropriate manner, for example by breaking it down by the use to which they are put (EMAS, 2023). The mass flow of relevant materials used will result from the sum of the weight of all used materials, including raw materials, auxiliary materials, input materials, semi-finished products, or others (excluding energy sources and water).and provide the total weight for each key material used (e.g., tonnes of wood purchased). The mass flow of relevant materials used will result from the sum of the weight of all used materials, including raw materials, auxiliary materials, input materials, semi-finished products, or others (excluding energy sources and water).

AR 63. The annual mass-flow is to be preferably expressed in units of weight (e.g., kilograms or tonnes), volume (e.g., m^3) or other metric units commonly used in the sector.

Disclosure Requirement E5-2 - Resource outflows

AR 64. When addressing the requirements on products and materials disclosure, if and undertaking applies circular economy principles, it may provide additional information on the extent to which they are durable, recyclable and repairable.

AR 65. The undertaking may disclose its engagement in product end-of-life ***waste management***, for example through extended producer responsibility schemes or take-back schemes.

AR 66. When presenting information on its ***waste*** generation or diversion from disposal, the undertaking should preferably report such information in units of weight (e.g., kg or tonnes). Nevertheless, should it the units of weight be considered an inappropriate unit by the undertaking, they may alternatively disclose the afore-mentioned metrics in volumes (e.g., m3) instead.

AR 67. When considering the ***waste*** streams relevant to its sectors or activities, the undertaking may consider the list of waste descriptions from the European Waste Catalogue. Waste marked with an asterisk (*) in the EWC is classified as hazardous, particularly if it contains substances with hazardous properties such as flammability, toxicity, or corrosiveness. Applicability depends on the presence of hazardous or radioactive materials in business processes.

AR 68. Examples of other types of disposal operations under paragraph 65 (iii) can be found in Annex I of Directive 2008/98/EC (Waste Framework Directive).

AR 69. When disclosing information on the total annual waste diverted to recycling or reuse, the undertaking should consider the waste that is sorted and sent to recycling

or reuse operators (e.g., amount of waste put into recycling container, or sorting of waste into certain categories of materials and their delivery to waste treatment facilities), rather than the waste that gets effectively recycled or reused.

Application Requirements - Anticipated financial effects from material environmental-related matters impacts and risks(E6)

AR 70. For each of the environmental topics for which there are material risks, the undertaking may disclose:

(a) a quantification of the ***anticipated financial effects*** in monetary terms, or where not possible with reasonable effort, qualitative information. The quantification of the anticipated financial effects in monetary terms may be a single amount or a range;

(b) a description of the effects considered, the related impacts and dependencies to which they relate and the time horizons in which they are likely to materialise; and

(c) the critical assumptions used to quantify the ***anticipated financial effects***, as well as the sources and level of uncertainty attached to those assumptions.

AR 71. In relation to the potential to benefit from material environmental-related opportunities, the undertaking may disclose its expected cost savings from environmental-related risk mitigation actions.

AR 72. The undertaking may also provide information on how it expects its financial position, financial performance and cash flows to change over the short, medium- and long-term, given its strategy to manage risks, taking into consideration:

AR 73. its investment and disposal plans (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements), including plans that the undertaking is not contractually committed to; and its planned sources of funding to implement its strategy.

AR 74. In alternative to disclosures in paragraph AR 67 (a) on the monetary quantification of anticipated financial effects, the undertaking may classify each anticipated financial effect according to the following ranges; (a) low; (b) medium; (c) high. Examples of environmental-related (other than climate) physical and transition risks can be found in Set 1 ESRS E2 AR 7. (for pollution), ESRS E3 AR 13. (for water), ESRS E4 AR 9. (for ecosystems and biodiversity) and ESRS E5 AR 5. (for circular economy).

AR 75. Considering anticipated financial effects due to material opportunities related to circular economy, the undertaking may, for instance, illustrate and describe how it intends to strengthen value retention.

AR 76. The undertaking may consider as part of its anticipated financial effects related to pollution operating and capital expenditures related to incidents and deposits (e.g., interruptions of production resulting in pollution), which may include:

(a) costs of eliminating and remediating the respective pollution of air, water and soil including environmental protection;

(b) damage compensation costs including payment of fines and penalties imposed by regulators or government authorities.

AR 77. Incidents may include interruptions of production, whether arising from the supply chain and/or from own operations, which resulted in pollution.

[Draft] ESRS LSME

SECTION 5 SOCIAL METRICS

DISCLAIMER

Section 5 *Social metrics* is set out in paragraphs 1–54. The following appendices of Section 5 have the same authority as the main body of the [draft] Standard:
- *Appendix A: Application Requirements*,
- *Appendix A.1: Application Requirements for Section 2 related disclosures,*
- *Appendix A.2: Application Requirements for IR-3 on Policies related to own workforce,*
- *Appendix A.3: Application Requirements for IR–3 on Actions and resources to manage material impacts on own workforce, and approaches to mitigating material risks related to own workforce, and effectiveness of those actions,*
- *Appendix A.4: Application Requirements for Voluntary Disclosure IR–4 Targets related to managing material negative impacts and material risks*

Objective

1. The objective of the social metrics in this section of this [draft] Standard is to provide users of the sustainability statement with an understanding of the undertaking's social performance in relation to its material impacts and risks (and opportunities) related to its own workforce. This section should be read in conjunction with sections 2 and 3 which define the implications of the undertaking`s material impacts and risk (and opportunities) on its strategy and business model and how the undertaking manages them through policies, actions and targets.

2. The objective of tThis [draft] Section sets out is to specify disclosure requirements that will enable ***users*** of the ***sustainability statement*** to understand:

   (a) how the undertaking affects its own workforce, workers in its ***value chain***, ***affected communities*** and ***consumers*** and end-users; in terms of material negative actual or potential ***impacts***;

   (b) any ***actions*** taken, and the result of such actions, to prevent, mitigate or remediate actual or potential negative ***impacts***, and to address ***risks***;

   (c) the nature, type and extent of the undertaking's ***material risks*** related to its own workforce, workers in its ***value chain***, ***affected communities*** and ***consumers*** and end-users; and how t manages them;

   (d) the ***financial effects*** on the undertaking over the short-, medium- and long-term of ***material risks*** arising from the undertaking's ***impacts*** and ***dependencies*** on its own workforce, workers in its ***value chain***, ***affected communities*** and ***consumers*** and end-users.

3. The undertaking shall apply the requirements in this Section if 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). In determining which information in this section should be included, the undertaking shall apply:

   (a) the provisions in paragraph 42 of Section 1 for metrics; and

   (b) the provisions in paragraph 38 of Section 1, which support also the determination of the details of narrative disclosure to be reported.

4. In particular, this section (as defined in paragraph 1 of this section) sets requirements for ***metrics*** that are relevant only to its ***own workforce***. Disclosure requirements related to workers in the ***value chain***, ***affected communities*** and ***consumers*** and end-***users*** are located in Section 2, Disclosure Requirement SBM-3 and corresponding Application Requirements and in Section 3, Disclosure Requirements IR-3 and IR-4 and their corresponding Application Requirements. They concern policies, actions and targets that the undertaking shall disclose with regard to impacts or risks connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. Sustainability matters that relate to an undertaking's own workforce, workers in the value chain, affected communities and consumers and end-users are listed in Section 1 General Requirements, Appendix A, AR 22 of this [draft] standard. Section 5 Social Metrics does not include any specific metrics concerning workers in the value chain, affected communities and end-users. If the Disclosure Requirements in Section 2, Disclosure Requirement SBM-3 and corresponding Application Requirements and in Section 3, Disclosure Requirements IR-3 and IR-4 and their corresponding Application Requirements do not cover these sustainability matters in sufficient depth or detail or not at all the undertaking shall also make appropriate entity-specific disclosures.

5. These [draft] Disclosure Requirements relate to the following ***sustainability matters***: (a) working conditions (including secure employment; working time; ***adequate wages***; ***social***

dialogue; freedom of association, the existence of works councils and the information, consultation and participation rights of workers; collective bargaining, including the rate of the undertaking's ***employees*** covered by collective agreements; ***work-life balance***; and health and safety), (b) ***equal treatment*** and ***opportunities*** for all (including 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; and diversity), (c) other work-related rights (including those that relate to ***child labour***; ***forced labour***; adequate housing; and privacy).

6. These [draft] Disclosure Requirements cover an undertaking's own workforce, which includes people who are in an employment relationship with the undertaking ("***employees***") and "non-employees". Non-employees are either people with contracts with the undertaking to supply labour ("self-employed people") or people provided by undertakings primarily engaged in "employment activities" (NACE Code N78). The required disclosures about non-employees shall not affect their employment status under applicable labour law.

7. These [draft] Disclosure Requirements require undertakings to describe their own workforce, including key characteristics of the ***employees*** and non-employees that are part of it. This description provides ***users*** with an understanding of the structure of the undertaking's relationship with present workforce and helps to contextualise information that are relevant and material to other social disclosures included in this Section of LSME ESRS.

8. Undertakings or groups that do not exceed on their balance sheet date the average number of 50 employees during the financial year may omit all disclosure requirements related to their own workforce in the first year of preparation of their sustainability statement.

Own workforce (S1)

Metrics

Disclosure Requirement S1-1 – Characteristics of the undertaking's employees

9. The objective of this Disclosure Requirement is to provide insight into the undertaking's approach to employment, including the scope and nature of ***impacts*** arising from its employment practices, to provide contextual information that aids an understanding of the information reported in other disclosures, and to serve as the basis for calculation for quantitative ***metrics*** to be disclosed under other disclosure requirements in this Standard.

10. The undertaking shall disclose:

    (a) the total number of ***employees*** by head count, and breakdowns by gender and by country for countries in which the undertaking has at least 10% of its total number of employees. If this threshold is not applicable, the undertaking may report the country breakdown by main countries;

    (b) the total number by head count or full time equivalent (FTE) of:

        i. permanent ***employees***, and breakdown by gender;

        ii. temporary ***employees***, and breakdown by gender; and

        iii. non-guaranteed hours ***employees***, and breakdown by gender.

    (c) the rate of ***employee*** turnover in the reporting period.

(d) a description of the methodologies and assumptions used to compile the data, including whether the numbers are reported:

i. in head count or full-time equivalent (FTE) (including an explanation of how FTE is defined); and

ii. at the end of the reporting period, as an average across the reporting period, or using another methodology.

(e) where applicable, a cross-reference of the information reported under (a) above to the most representative number in the financial statements.

Disclosure Requirement S1-2 – Characteristics of non-employees in the undertaking's own workforce[39]

11. The objective of this Disclosure Requirement is to provide insight into the undertaking's approach to employment, including the scope and nature of ***impacts*** arising from its employment practices, to provide contextual information that aids the understanding of the information reported in other disclosures, and to serve as the basis for calculation for quantitative ***metrics*** to be disclosed under other disclosure requirements in this Standard. It also allows an understanding of how much the undertaking relies on ***non-employees*** as part of its workforce.

12. The undertaking shall disclose:

(a) the total number of ***non-employees*** in the undertaking's ***own workforce***, i.e., either people with contracts with the undertaking to supply labour ("self-employed people") or people provided by undertakings primarily engaged in "employment activities" (NACE Code N78).

(b) an explanation of the methodologies and assumptions used to compile the data, including whether the number of ***non-employees*** is reported:

i. in headcount or full-time equivalent (FTE) (including a definition of how FTE is defined); and

ii. at the end of the reporting period, as an average across the reporting period, or using another methodology.

Disclosure Requirement S1-3 – Collective bargaining coverage[40]

13. The objective of this Disclosure Requirement is to enable an understanding of the coverage of collective bargaining agreements for the undertaking's own ***employees***.

14. The undertaking shall disclose the percentage of its total ***employees*** covered by ***collective bargaining*** agreements.

15. For ***employees*** not covered by ***collective bargaining*** agreements, the undertaking may disclose whether it determines their working conditions and terms of employment based on collective bargaining agreements that cover its other employees or based on collective bargaining agreements from other undertakings.

16. The undertaking may 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.

[39] The undertaking may omit all datapoints in this Disclosure Requirement in the first year of the preparation of its sustainability statement.
[40] The undertaking may omit this Disclosure Requirement with regard to its own employees in non-EEA countries in the first year of preparation of its sustainability statement.

Disclosure Requirement S1-4 – Adequate wages

17. The objective of this Disclosure Requirement is to enable an understanding of whether or not the undertaking's *employees* are paid an *adequate wage* in line with applicable benchmarks.

18. The undertaking shall disclose whether its ***employees*** are paid an ***adequate wage*** in line with applicable benchmarks. If so, stating this is sufficient to fulfil this disclosure requirement.

19. If there are ***employees*** not paid an ***adequate wage*** in line with applicable benchmarks, the undertaking shall disclose the countries where employees earn below the applicable adequate wage benchmark for countries that represent at least 10% of its total number of employees. If this threshold is not applicable, the undertaking may report by main countries. The undertaking shall also disclose the percentage of employees that earn below the applicable adequate wage benchmark for each of these countries.

20. The undertaking may disclose the information specified in this disclosure requirement with regard to ***non-employees*** in this workforce.

Disclosure Requirement S1-6 Training metrics[41]

21. The objective of this Disclosure Requirement is to enable an understanding of the ***training*** - related activities that have been offered to ***employees***, within the context of continuous professional growth, to upgrade employees' skills and facilitate continued employability.

22. The undertaking shall disclose the average number of ***training*** hours per ***employee*** and by gender[42].

Disclosure Requirement S1-7 – Health and safety metrics[43]

23. The objective of this Disclosure Requirement is to allow an understanding of the coverage, quality and performance of the health and safety management system established to prevent work-related injuries.

24. The undertaking shall disclose the following information. If relevant, the information under points (a) and (b) may be broken down between ***employees*** and ***non-employees*** in the undertaking's ***own workforce***:

    (a) the number of fatalities[44] as a result of work-related injuries and work-related ill health;

    (b) the number and rate[45] of recordable work-related accidents;

[41] The undertaking may omit this Disclosure Requirement in the first year of the preparation of its sustainability statement.
[42] The undertaking may omit the breakdown by gender required under Disclosure Requirement S1-6 for the first two years of preparation of its sustainability statement.
[43] The undertaking may omit the data points about cases of work-related ill-health and the number of days lost to injuries, accidents, fatalities and work-related health issues in the first year of the preparation of its sustainability statement. The undertaking may omit reporting about non-employees in the first year of the preparation of its sustainability statement.
[44] This information supports the information needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Weighted average ratio of accidents, injuries, fatalities" in section 1 and 2 of Annex 2.
[45] 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 as set out by indicator #2 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Rate of accidents") and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Weighted average ratio of accidents, injuries, fatalities" in section 1 and 2 of Annex 2.

(c) regarding the undertaking's employees, the number of days lost to work-related injuries and fatalities from work-related accidents, work-related ill health and fatalities from ill health[46].

Disclosure Requirement S1-8 – Remuneration metrics (pay gap and total remuneration)

25. The objective of this Disclosure Requirement is to allow an understanding of the extent of any gap in the ***pay*** between women and men amongst the undertaking's ***employees***, and to provide insight into the level of remuneration inequality inside the undertaking.

26. The undertaking shall disclose:

(a) the gender ***pay*** gap, defined as the percentage gap in pay between female and male ***employees***[47];

(b) the ***annual total remuneration*** ratio of the highest paid individual to the median annual total remuneration for all ***employees*** (excluding the highest-paid individual)[48].

The undertaking may omit these disclosures if its average number of employees during the financial year does not exceed 50.

27. The undertaking may disclose a breakdown of the gender ***pay*** gap by ***employee*** category and/or by country/segment.

28. The undertaking may report the annual total remuneration ratio adjusted for purchasing power differences between countries, in which case it shall disclose its calculation method.

Disclosure Requirement S1-9 – Incidents and severe human rights impacts[49]

29. The objective of this Disclosure Requirement is to allow an understanding of the extent to which ***discrimination-related incidents*** and severe cases of human rights ***impacts*** that are reported in the reporting period are affecting its ***own workforce***.

30. The undertaking shall disclose the following information regarding work-related incidents of ***discrimination*** and identified cases of severe human rights ***incidents*** (e.g., ***forced labour***, ***human trafficking*** or ***child labour***):

(a) the total number of work-related ***incidents*** of ***discrimination***, including ***harassment***, on the grounds of gender, racial or ethnic origin, nationality, religion or belief, disability, age, sexual orientation or other relevant forms of discrimination involving internal and/or external stakeholders across operations reported in the reporting period[50]. The undertaking shall further disclose the number of severe human rights incidents, excluding incidents as previously reported, connected to

[46] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #3 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Number of days lost to injuries, accidents, fatalities or illness").

[47] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicator #12 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Unadjusted gender pay gap") and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Weighted average gender pay gap" in section 1 and 2 of Annex 2.

[48] 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 as set out by indicator #8 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Excessive CEO pay ratio").

[49] The undertaking may omit the datapoint about the reconciliation of monetary amounts in the first year of the preparation of its sustainability statement.

[50] 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 as set out by indicator #7 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Incidents of discrimination").

the undertaking's workforce in the reporting period, including an indication of how many of these are cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises. If no such incidents have occurred, the undertaking shall state this[51].

(b) the total amount of any fines, penalties and compensation for damages resulting from the incidents described in (a) above. And explanation of how this monetary amount relates to the most relevant items in the financial statements.

Disclosure Requirement S1-10 – Diversity metrics

31. The objective of this Disclosure Requirement is to enable an understanding of the gender diversity at top management level and the extent to which ***persons with disabilities*** are included among the undertaking's ***employees***.

32. The undertaking shall disclose:

(a) the gender distribution in percent at top management level; and,

(b) the percentage of ***persons with disabilities*** amongst its ***employees*** subject to legal restrictions on the collection of data.

The undertaking may omit these disclosures if its average number of employees during the financial year does not exceed 50.

[51] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory and additional indicator related to principal adverse impacts as set out by indicator #10 in Table 1 of Annex 1 and by indicator #14 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Violations of UNGC principles and OECD" and "Number of identified cases of severe human rights issues and incidents") and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Number of benchmark constituents subject to social violations (absolute number and relative divided by all benchmark constituents), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law" in section 1 and 2 of Annex 2.

Appendix A: Application Requirements

This appendix is an integral part of [draft] Section 5. It supports the application of the disclosure requirements set out in this section and has the same authority as the other parts of this [draft] Standard.

AR 1. The undertaking's ***impacts*** in relation to ***sustainability matters*** and ***dependencies*** on specific stakeholder groups can create ***material risks*** for the undertaking. For instance, with regard to ***equal opportunities***, ***discrimination*** in hiring and promotion against women can reduce the undertaking's access to qualified labour and harm its reputation.

AR 2. The overview of social matters provided in paragraph 4 (a) is not meant to imply that all these issues should be reported on in each Disclosure Requirement in this [draft] Standard. Rather, they provide a list of matters that undertakings shall consider for the ESRS 2 ***materiality*** assessment related to own workforce and report as material ***impacts*** and ***risks*** within the scope of this [draft] Standard.

AR 3. Examples of "***non-employees***" are:

(a) Examples of contractors (self-employed persons) in the undertaking's own workforce include:

i. Contractors hired by the undertaking to perform work that would otherwise be carried out by an ***employee***.

ii. Contractors hired by the undertaking to perform work in a public area (e.g., on a road, on the street).

iii. Contractors hired by the undertaking to deliver the work/service directly at the workplace of a client of the undertaking.

(b) Examples of people employed by a third party engaged in "employment activities" include people who perform the same work that ***employees*** carry out, such us:

i. people who fill in for employees who are temporarily absent (due to illness, holiday, parental leave, etc.);

ii. people performing work additional to regular employees;

iii. people who are dispatched temporarily from another EU member state to work for the undertaking ('posted workers')

Metrics

Disclosure Requirement S1-1 – Characteristics of the Undertaking's Employees

AR 4. This Disclosure Requirement covers all ***employees*** who perform work for any of the undertaking's entities included in its sustainability reporting.

AR 5. The undertaking shall disclose the requested disclosures in the following tabular formats:

AR 6. Table 1: Template for presenting information on ***employee*** head count by gender

Gender	Number of employees (head count)
Male	
Female	
Other	
Not reported	
Total Employees	

AR 7. In some Member States it is possible for persons to legally register themselves as having a third, often neutral, gender, which is categorised as "other" in the table above. If the undertaking discloses data about ***employees*** where this is not possible, it may explain this and state that the "other" category is not applicable.

AR 8. Table 2: Template for presenting ***employee*** head count in countries where the undertaking has at least 10% of its total number of employees

Country	Number of employees (head count)
Country A	
Country B	
Country C	
Country D	

AR 9. Table 3: Template for presenting information on ***employees*** by contract type, broken down by gender (head count or FTE) (reporting on full-time and part-time employees is voluntary)

[Reporting period]				
FEMALE	**MALE**	**OTHER***	**NOT DISCLOSED**	**TOTAL**
Number of employees (head count / FTE)				
Number of permanent employees (head count / FTE)				
Number of temporary employees (head count / FTE)				
Number of non-guaranteed hours employees (head count / FTE)				
Number of full-time employees (head count / FTE)				
Number of part-time employees (head count / FTE)				

- Gender as specified by the employees themselves.

AR 10. The definitions of permanent, temporary, non-guaranteed hours, ***employees*** differ between countries. The undertaking shall use the definitions as per the national

laws of the countries where the employees are based to calculate country-level data. If the undertaking operates in more than one country, the country-level data shall be added up to calculate total numbers, disregarding differences in national legal definitions. Non-guaranteed hours employees are employed by the undertaking without a guarantee of a minimum or fixed number of working hours. The employee may need to make themselves available for work as required, but the undertaking is not contractually obliged to offer the employee a minimum or fixed number of working hours per day, week, or month. Casual employees, employees with zero-hour contracts, and on-call employees are examples that fall under this category.

AR 11. Disclosing the number of ***employees*** at the end of the reporting period provides information for that point in time, without capturing fluctuations during the reporting period. Disclosing these numbers in averages across the reporting period takes into account fluctuations during the reporting period, which may arise because an undertaking recruits employees for temporary or seasonal work or because of the standard practice of offering new employees a temporary contract before offering a permanent contract.

Disclosure Requirement S1-2 – Characteristics of non-employees in the undertaking's own workforce

AR 12. This Disclosure Requirement provides insight into the undertaking's approach to employment, as well as the scope and nature of ***impacts*** arising from its employment practices. It also provides contextual information that aids an understanding of the information reported in other disclosures. If all the people performing work for the undertaking are ***employees*** and the undertaking does not have any people in its workforce who are not employees, this Disclosure Requirement is not material for the undertaking.

AR 13. Examples of contractors (self-employed people) in the undertaking's own workforce include: contractors hired by the undertaking to perform work that would otherwise be carried out by an ***employee***; contractors hired by the undertaking to perform work in a public area (for example, on a road, on the street); and contractors hired by the undertaking to deliver the work/service directly at the workplace of a client of the organization. Examples of people employed by a third party engaged in 'employment activities' whose work is under the direction of the undertaking include: people who perform the same work that employees carry out, such as people who fill in for employees who are temporarily absent (due to illness, holiday, parental leave, etc.); people performing regular work at the same ***site*** as employees; and workers who are dispatched temporarily from another EU member state to work for the undertaking ("posted workers").

AR 14. Non-employees in an undertaking's own workforce must be distinguished from ***value chain workers***, i.e. individuals who perform work in the ***value chain*** of the undertaking, regardless of the existence or nature of any contractual relationship with the undertaking. Examples of ***value chain workers*** – and thus of workers not in the undertaking's own workforce –include: workers for a ***supplier*** contracted by the undertaking who work on the supplier's premises using the supplier's work methods; workers for a 'downstream' entity which purchases goods or services from the undertaking; and workers of an equipment supplier to the undertaking who, at one or more of the undertaking's workplaces, perform regular maintenance on the supplier's equipment (for example, photocopier) as stipulated in the contract between the equipment supplier and the undertaking.

AR 15. For the information required by point (a) of paragraph 11, the undertaking may disclose the most common types of ***non-employees*** (for example, self-employed people, people provided by undertakings primarily engaged in employment activities,

and other types relevant to the undertaking), and their relationship with the undertaking.

AR 16. Disclosing the number of people in the undertaking's own workforce who are not ***employees*** at the end of the reporting period provides information for that point in time without capturing fluctuations during the reporting period. Disclosing this number as an average across the reporting period considers fluctuations during the reporting period and can provide more insightful and relevant information for ***users***. An increase in the number of ***non-employees*** during the reporting period could be due to a seasonal event. Conversely, a decrease in the number of non-employees compared to the previous reporting period could be due to the completion of a temporary project. If the undertaking discloses fluctuations, it shall also explain the criteria used to determine which fluctuations it discloses. If there are no significant fluctuations in the number of non-employees during the reporting period or between the current and previous reporting period, the undertaking may disclose this information.

Disclosure Requirement S1-3 – Collective bargaining coverage

Collective bargaining coverage

AR 17. The percentage of ***employees*** covered by collective bargaining agreements is calculated using the following formula:

$$\frac{Number\ of\ employees\ covered\ by\ collective\ bargaining\ agreements}{Number\ of\ employees}\ x\ 100$$

AR 18. The information required by this Disclosure Requirement shall be reported in quintiles, i.e. as coverage ranges between 0–19%, 20–39%, 40–59%, 60–79% or 80–100%.

AR 19. The ***employees*** in the undertaking's own workforce covered by collective bargaining agreements are those individuals to whom the undertaking is obliged to apply the agreement. This includes the different levels at which collective bargaining agreements can be discussed and agreed, according to the definition in the Collective Bargaining Convention, 1981 (No. 154), (e.g., national, sectoral, undertaking levels). An employee in the undertaking's own workforce covered by more than one collective bargaining agreement only needs to be counted once.

AR 20. This requirement is not about the percentage of ***employees*** represented by a works council or belonging to trade unions. The percentage of employees covered by ***collective bargaining*** agreements can be higher than the percentage of unionised employees when the collective bargaining agreement apply to both union and non-union members. The percentage of employees covered by collective bargaining agreements can also be lower than the percentage of unionised employees when no collective bargaining agreements exist or when they do not cover all unionised employees.

Disclosure Requirement S1-4 – Adequate Wages

AR 21. The lowest ***wage*** shall be calculated for the lowest pay category, excluding interns and apprentices. This is to be based on the basic wage plus any fixed additional payments that are guaranteed to all ***employees***. The lowest wage shall be considered separately for each country in which the undertaking has operations, except outside the EEA when the relevant adequate or minimum wage is defined at a sub national level.

AR 22. The ***adequate wage*** benchmark used for comparison with the lowest wage shall not be lower than:

(a) in the EEA: the minimum wage set in accordance with Directive (EU) 2022/2041 of the European Parliament and of the Council[52] on adequate minimum wages in the European Union. If there is no applicable minimum wage determined by legislation or collective bargaining in an EEA country, the undertaking shall use an adequate wage benchmark that is either not lower than the minimum wage in a neighbouring country with a similar socio-economic status or not lower than a commonly referenced international norm such as 60% of the country's median wage and 50% of the gross average wage.

(b) outside of the EEA:

i. the wage level established in any existing international, national or sub-national legislation, official norms or collective agreements, based on an assessment of a wage level needed for a decent standard of living;

ii. if none of the instruments identified in (i) exist, any national or sub-national minimum wage established by legislation or collective bargaining; or

iii. if none of the instruments identified in (i) or (ii) exist, any benchmark that meets the criteria set out by the Sustainable Trade Initiative (IDH) ('Roadmap on Living Wages - A Platform to Secure Living Wages in Supply Chains'), including applicable benchmarks aligned with the Anker methodology, or provided by the Wage Indicator Foundation or Fair Wage Network, provided the primacy of collective bargaining for the establishment of terms and conditions of employment is ensured.

AR 23. Directive (EU) 2022/2041 on adequate minimum ***wages*** in the European Union references both indicative reference values commonly used at international level such as 60% of the gross median wage and 50% of the gross average wage, and/or indicative reference values used at national level. Data for the indicative values of 60% of the national median gross wage or 50% of the national average gross wage can be obtained from the European Labour Force Survey.

Disclosure Requirement S1-6 – Training metrics

AR 24. The average number of ***training*** hours per ***employee*** and by gender shall be calculated as follows: total number of ***training*** hours offered to and completed by ***employees*** per gender category divided by the total number of employees per gender category. For the total training average and the average by gender, the head count figures for total employment and employment by gender reported in Disclosure Requirement S1-1 shall be used.

Disclosure Requirement S1-7 – Health and safety metrics

[52] Directive (EU) 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages in the European Union (OJ L 275, 25.10.2022, p. 33).

AR 25. The undertaking may also disclose the information specified in point (c) of paragraph 23 regarding ***non-employees***.

Guidance on "work-related"

AR 26. Work-related injuries and work-related ill health arise from exposure to hazards at work. However, not all incidents that occur during working hours are connected to the work itself. For example, the following are generally not considered work related, unless otherwise specified in national legislation:

(a) a person suffers a heart attack while at work, but where the heart attack is not connected to the work;

(c) a person driving to or from work is injured in a car accident (when driving is not part of the work and where the transport has not been organised by the undertaking); or

(d) a person with epilepsy has a seizure at work that is not connected to the work.

AR 27. Injuries and ill health that occur while a person is travelling are work-related if, at the time of the injury or ill health, the person was engaged in work activities "in the interest of the employer". Examples of such activities include travelling to and from customer contacts; conducting job tasks; and entertaining or being entertained to transact, discuss, or promote business (at the direction of the employer). Incidents that occur while commuting are considered work-related if the undertaking is responsible for the commuting. Incidents that happen during travel, but are outside of the undertaking's responsibility (i.e. regular commuting to and from work), may be reported separately.

AR 28. Injuries and ill health that occur when working from home are work-related if the injury or ill health are directly related to the performance of work rather than the general home environment.

AR 29. Mental illness is considered work-related if the person concerned has provided the relevant information voluntarily, if it is supported by an opinion from a licensed healthcare professional with appropriate ***training*** and experience, and if said opinion states that the illness is work-related.

AR 30. Health issues resulting, for example, from smoking, drug and alcohol abuse, physical inactivity, unhealthy diets and psychosocial factors unrelated to work are not considered work-related.

AR 31. Occupational diseases are not considered work-related injuries but are covered under work-related ill health.

Guidance on computing the rate of work-related injuries

AR 32. The undertaking shall divide the number of cases by the number of total hours worked by people in its own workforce and multiplied by 1,000,000. This rate represents the number of cases per one million hours worked. A rate based on 1,000,000 hours worked indicates the number of work-related injuries per 500 full time people in the workforce over one year. For comparability purposes a rate based on 1,000,000 hours worked shall be used also for undertakings with fewer than 500 people in the workforce.

AR 33. If the undertaking cannot directly calculate the number of hours worked, it may estimate this on the basis of normal or standard hours of work, taking into account entitlements to periods of paid leave of absence from work (for example, paid vacations, paid sick leave, public holidays) and explain this in its disclosures.

AR 34. An undertaking shall include fatalities as a result of ***work-related injury*** in the calculation of the number and rate of recordable work-related injuries.

Guidance on recordable work-related ill health

AR 35. Work-related ill health can include acute, recurring and chronic health problems caused or aggravated by work conditions or practices. These include musculoskeletal disorders, skin and respiratory diseases, malignant cancers, diseases caused by physical agents (for example, noise induced hearing loss, vibration-caused diseases) and mental illnesses (for example, anxiety, post-traumatic stress disorder). For the purpose of the required disclosures, the undertaking shall, at a minimum, include in its disclosure those cases outlined in the ILO List of Occupational Diseases.

AR 36. In the context of this [draft] Standard, work-related musculoskeletal disorders are covered under work-related ill health (and not injuries).

Guidance on the number of days lost

AR 37. When counting the number of days lost the first full day and last day of absence shall be included. Calendar days should be used for the calculation. Days on which the affected individual is not scheduled for work (for example, weekends, public holidays) therefore count as lost days.

Disclosure Requirement S1-8 – Remuneration metrics (gender pay gap and total remuneration ratio)

Pay gap

AR 38. When computing the gender pay gap under paragraph 25(a) the undertaking shall include the gross hourly pay level of all employees and use the following formula:

$$\frac{(Average\ gross\ hourly\ pay\ level\ of\ male\ employees\ -\ average\ gross\ hourly\ pay\ level\ of\ female\ employees)}{Average\ gross\ hourly\ pay\ level\ of\ male\ employees}\ x\ 100$$

AR 39. Depending on the undertaking's remuneration policies, gross pay refers to all of the following components:

(a) base salary, which is the sum of guaranteed, short-term and non-variable cash compensation;

(b) benefits in cash, which constitute the sum of the base salary and cash allowances, bonuses, commissions, cash profit-sharing and other forms of variable cash payments;

(c) benefits in kind such as cars, private health insurance, life insurance and wellness programs; and

(d) direct remuneration, which is the sum of benefits in cash, benefits in kind and the total fair value of all annual long-term incentives.

Gross pay is the sum of all the applicable elements listed above.

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The gender pay gap of the previous two reporting periods may also be reported.**Total remuneration Ratio**

AR 40. When compiling the information required by paragraph 25(b), the undertaking shall:

(a) include all ***employees***;

(b) consider, depending on the undertaking's remuneration policies, all of the following:

i. base salary, which is the sum of guaranteed, short-term, and non-variable cash compensation;

ii. benefits in cash, which is the sum of the base salary and cash allowances, bonuses, commissions, cash profit-sharing, and other forms of variable cash payments;

iii. benefits in kind, such as cars, private health insurance, life insurance, wellness programs; and

iv. direct remuneration, which is the sum of benefits in cash, benefits in kind and total fair value of all annual long-term incentives (for example, stock option awards, restricted stock shares or units, performance stock shares or units, phantom stock shares, stock appreciation rights, and long-term cash awards).

(c) apply the following formula for the ***annual total remuneration*** ratio:

$$\frac{Annual\ total\ remuneration\ for\ the\ undertaking's\ highest\ paid\ individual}{Median\ employee\ annual\ total\ remuneration\ (excluding\ the\ highest-paid\ individual)}$$

Disclosure Requirement S1-9 –Incidents and severe human rights impacts

AR 41. Severe human rights incidents include lawsuits, formal complaints through the undertaking or third-party complaint mechanisms, serious allegations in public reports or the media, where these are connected to the undertaking's own workforce, and the fact of the incidents is not disputed by the undertaking, as well as any other severe ***impacts*** of which the undertaking is aware.

Disclosure Requirement S1-10 – Diversity metrics

AR 42. For the purpose of the disclosure of the gender distribution at top management level, 'top management' means the first two levels below the administrative and supervisory bodies. If the undertaking's structure and operations and differ it may use its own definition of 'top management'. In that case it shall disclose that fact and its definition.

AR 43. When disclosing the information required regarding ***persons with disabilities***, the undertaking may provide contextual information necessary to understand the data and how the data has been compiled. For example, information about the impact of different legal definitions of persons with disabilities in the different countries in which the undertaking has operations.

[Draft] ESRS LSME

SECTION 6 BUSINESS CONDUCT METRICS

DISCLAIMER

Section 6 *Busi*ness *conduct* is set out in paragraphs 1–12. The following appendix of Section 6 have the same authority as the main body of the [draft] Standard:
- *Appendix A: Application Requirements*.

Objective

1. The objective of the Business conduct metrics in this section of this [draft] Standard is to provide users of sustainability statement with an understanding of the undertaking's performance on business conduct in relation to its material impacts and risks (and opportunities). This section should be read in conjunction with section 2 and 3 which define the implications of the undertaking`s material impacts and risk (and opportunities) on its strategy and business model and how the undertaking manages them through policies, actions and targets

2. In particular, this Section defines metrics on the following matters:

   (a) anti-corruption and anti-bribery, and

   (b) political influence and lobbying activities.

3. The undertaking shall apply the requirements in this Section, when it concludes that the topic business conduct is material (according to chapter 3.3 *Double materiality*, 3.*4 Impact materiality* and 3.5 *Financial materiality* of Section 1). In determining which information in this section should be included, the undertaking shall apply:

   (a) the provisions in paragraph 42 of Section 1 for metrics; and

   (b) the provisions in paragraph 38 of Section 1, which support also the determination of the details of narrative disclosure to be reported.

Metrics

Disclosure Requirement G1-1 –Anti-corruption and anti-bribery

4. The objective of this Disclosure Requirement is to provide transparency on the incidents relating to *corruption* or *bribery* during the reporting period and the related outcomes.

5. If the undertaking has received convictions and fines for violation of anti-*corruption* and anti-*bribery* laws[53], it shall disclose the number of convictions and the amount of fines.

Disclosure Requirement G1-2 – Political influence and lobbying activities

6. The objective of this Disclosure Requirement is to provide transparency on the undertaking's activities and commitments related to exerting its political influence with political contributions, including the types and purpose of lobbying activities.

7. When the undertaking has in place political contributions or lobbying activities, the undertaking shall disclose:

   (a) 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. in case of in-kind political contributions made directly or indirectly by the undertaking, how the monetary value is estimated.

[53] 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 disclosure rules on sustainable investments ("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.

(b) 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 this section of this [draft] Standard. It supports the application of the disclosure requirements set out in this Section and has the same authority as the other parts of this [draft] Standard.

Disclosure Requirement G1-2 – Political influence and lobbying activities

AR 1. For purposes of this Standard 'political contribution' means financial or in-kind support provided directly to political parties, their elected representatives or persons seeking political office. Financial contributions can include donations, loans, sponsorships, advance payments for services, or the purchase of tickets for fundraising events and other similar practices. In-kind contributions can include advertising, use of facilities, design and printing, donation of equipment, provision of board membership, employment or consultancy work for elected politicians or candidates for office.

AR 2. 'Indirect political contribution' refers to those political contributions made through an intermediary organisation such as a lobbyist or charity, or support given to an organisation such as a think tank or trade association linked to or supporting particular political parties or causes.

AR 3. 'Indirect political contribution' refers to those political contributions made through an intermediary organisation such as a lobbyist or charity, or support given to an organisation such as a think tank or trade association linked to or supporting particular political parties or causes.

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