

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SRB. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Objective of the session

- 1 The EFRAG SRB will receive an update on the outcome of the EFRAG SR TEG discussion and key progress made on the version 1 draft LSME ESRS.
- 2 Members will be asked to provide comments and reactions to the summary of the content and drafting approach that is being implemented in the Exposure Draft.

Papers provided

- 3 EFRAG SRB has been provided for information purposes only with the package discussed at the public session of EFRAG SR TEG paper (21 February meeting).
- 4 The table with the list of DRs, decision tree and simplifications applied (Agenda Paper 05.02).

Next steps and timeline

- 5 With this session, the EFRAG Secretariat will have completed the collection of input on the identified content and drafting approach and will move to the finalization of the Exposure Draft for detailed comments by the EFRAG SRB.
- 6 Detailed comments by EFRAG SRB will be needed on the version that will be made available in the second half of March (ie version 2). Approval foreseen for April.
- 7 Consultation period 100 days.

Background

- 8 The v1 [draft] LSME ESRS is composed by a package of files (General requirements, General disclosures, Environmental DRs, Social DRs, Governance DRs) and has been developed on the basis of:
 - the results of the SRB discussions held on 14 December 2022, 24 and 27 January 2023;
 - the analysis of the CSRD provisions for LSMEs discussed at SR TEG meetings on 17 December (see agenda [paper 04-01](#) and [appendix 1](#)) and on 5 December ([Agenda paper 03-01](#));
 - the decision tree presented to the TEG meetings held on 5 and 12 December, 2022 and January 25 2023 (see agenda [paper 05-01](#) and [annex](#) SR TEG meeting January 25, 2023);
 - the decision of SR TEG meeting (public) and breakout (closed) sessions held on February 02, 2023.
- 9 The working papers on [draft] LSME ESRS are based on the issue papers for the methodological approach to LSME ESRS that included the following topics (see [working paper 06.01](#) prepared for the 24 January, 2023, SRB meeting):
 - Incorporation by reference to other Set 1 standards

- Undue Cost
 - Opportunities and Targets
 - Definition of impacts (and exclusion of positive impacts)
 - Qualitative characteristics of information
 - Approach to the value chain
 - Approach to materiality – a) Indicators stemming from EU regulation (incl. SFDR)
 - Approach to materiality –b) Alignment with approach in Set 1
 - List of DRs
- 10 Those questions were discussed during the TEG meetings held on Jan 24 and Jan 27, 2023.
- 11 The same methodological questions were also discussed by the EFRAG EWG on SMEs on 19 January. EFRAG SR TEG received a debriefing on 25 January.
- 12 A questionnaire with methodological question was sent to the new LSME community that held a workshop on 27 January.
- 13 The working document LSME ESRS was discussed with EWG on 9 February with general support for the approach.
- 14 A specific session with a sub-group of preparers and financial market participants of the LSME community is planned on 24 February.

Summary of the content and approach to drafting of LSME

- 15 To reflect the principle of proportionality, the following key simplifications have been implemented in working papers on [draft] LSME ESRS (on the basis of the SRB and SR TEG discussions/ approach presented by the EFRAG Secretariat at those meetings):

General consideration

- The text of SET 1 standards has been integrally considered and amended where appropriate, so that the [draft] LSME ESRS will be a standalone document.
- Parts in yellow are to be adjusted as well as some of the DRs (the text is still the same as Set 1).
- EFRAG will consult on the applicability of each sector specific ESRS to LSMEs, as part of the consultation. A question on the general approach to sector standards in LSME will also be included in LSME Exposure Draft. Pending the definition of such an approach, in this draft the references to sector-specific ESRS has been eliminated.

Section 1 “General requirements” and section 2 “General disclosures”

- The reporting covers material impacts and risks. Opportunities are voluntary.
- The undertaking shall disclose negative impacts. Positive impacts are disclosed on voluntary basis.
- The approach to entity-specific disclosure is unchanged from Set 1 ('shall').
- Reporting on targets is voluntary, except for climate transition plan.
- ESRS 2 Disclosure Contents (CC-P, DC-A and DC-T) have been eliminated. They are mentioned (via a cross-reference to draft ESRS 2 as a source of guidance to be applied on a voluntary basis).

- Due diligence: as part of its disclosure on policies and actions (limited to matters that are assessed to be material), the undertaking would be required to disclose whether and to what extent it has implemented sustainability due diligence processes as defined in the relevant OECD, UNGP and ILO instruments. Chapter on Due Diligence in ESRS 1 has been streamlined accordingly. GOV 4 in Section 2 confirmed.
- Items outside the materiality assessment: General Disclosures (equivalent to ESRS 2) and ESRS E1 Climate.
- EU datapoints (SFDR PAI, Benchmark regulation and Pillar 3 EBA) to be subject to materiality approach.
- Value chain: if a datapoint is eliminated from LSME, the corresponding datapoint in Set 1 will have to be amended in order to restrict the scope of this datapoint to own operation only ('cap'). No specific simplifications could be identified for Value Chain compared to ESRS 1, as this would trigger issues with the 'cap'
- Incorporation in the main body of this standard, under IRO 1, of the contents related to IRO 1 in the topical standards (main body), in a summarised way.

Section III Environmental Disclosures

- The disclosures on policies, actions and targets related to environment have been centralised in Section II General Disclosures under Disclosure Requirement IR-3 – Policies adopted to manage material sustainability matters, Disclosure Requirement IR-4 – Actions and resources in relation to sustainability matters, and Voluntary Disclosure IR-5 – Targets in relation to sustainability matters.
- Following the decision tree presented previously to the SRB, only metrics have been kept in this topical section.
- Approach to select the Metrics to be included:
 - SFDR PAIs, Pillar III EBA and Benchmark regulation requirements included
 - Selected metrics that impact the cap of the value chain for Set 1 (such as E1-4 GHG removals and GHG mitigation projects financed through carbon credits, E2-2 Substances of concern and substances of very high concern, in E5-1 Resource inflows).E5-2 the disclosure on hazardous and non-hazardous waste).
 - The alignment with the proposal from Cluster 8 on VSME ESRS (work in progress) was considered.
- DRs were simplified where possible based on the results of the SR TEG breakout session held on February 02 February 2023 and discussion at SR TEG meeting on 21 February 2023.

Section IV Social Disclosures

- The disclosures on policies, actions and targets were centralised in Section II General Disclosure, including the specificities from set 1. Clarification was sought from the European Commission regarding the interpretation of the CSRD provisions related to LSME Due Diligence. From that clarification, the EFRAG Secretariat will review the current draft whereby the disclosures related to processes for engaging with stakeholders and processes to remediate negative impacts and channels to raise concerns were considered voluntary. It was agreed at SR TEG on 21 February to review the Due diligence disclosures as a whole for location purposes, whether these should

be centralised in Section II for S1 to S4 or in the social chapter. Also, a proposal was made to centralise S1 to S4 for the DR1 to DR5 without losing the specificities in the Application Requirements.

- Regarding the metrics in Own workforce (S1), it has been suggested to simplify the content and reduce the granularity/breakdowns, rather than eliminating disclosure requirements. This is particularly important considering that the LSME ESRS will be the cap on value chain for large undertakings.

Section V Business conduct

- The disclosures on policies, actions and targets related to business conduct have been centralised in Section II General Disclosures. Selection of metrics:
 - Following the decision tree presented previously to the SRB, only metrics have been kept in this topical section related to SFDR PAIs, Pillar III EBA and Benchmark regulation.
 - Disclosure requirements defined in the in cluster 8 proposal for VSME (work in progress) have been considered.
- According to CSRD Art. 29 b (2) provisions. DRs has been included for "protection of whistle-blowers and animal welfare", "lobbying activities", "payment practices";
- Based on the results of the SR TEG breakout session held on February 02. 2023, EFRAG Secretariat has proposed the simplifications incorporated in v1 Section V LSME ESRS.

Questions to EFRAG SRB

- 16 Do EFRAG SRB members have comments and reaction to the content and drafting approach that is being implemented in LSME? Is there any specific point that is raising concerns and should be changed?
- 17 Do EFRAG SRB members have suggestions for additional simplifications?