

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

LSME and VSME

Approach to ‘building blocks’

Objective

- 1 The objectives of this paper is to:
 - (a) update EFRAG SR TEG on a decision taken by the EFRAG SRB on the development of two separate but compatible documents for voluntary standards for non-listed SMEs (VSME) and ESRS for listed-SME (LSME) that would promote a ‘building block’ approach;
 - (b) present EFRAG Secretariat proposal on how to operationalise the approach.
- 2 The content of this paper is an important background to the EFRAG SR TEG discussion. The discussion in this meeting will be focused on the drafting of LSME, however to the extent that a component is in the ‘common building block’ column in the table below, the language will in principle be the same for VSME and LSME.

Update from EFRAG SRB meeting (unapproved summary)

- 3 On the 27 January 2023, the EFRAG SRB discussed whether EFRAG should develop 2 separate standards (one for LSME and one for VSME). The EFRAG SRB agreed to:
 - (a) start working on a document for LSME, developed within the remit of the CSRD constraints (including SFRD, Benchmark, Pillar 3 and scope 3), but with a proportionality approach;
 - (b) once LSME is stabilised, consider VSME (incl. the current Cluster 8 draft) from a consistency and additional proportionality perspective;
 - (c) potentially consider merging LSME and VSME if appears relevant.

Proposal to operationalise the ‘building blocks’

- 4 On the basis of the EFRAG SRB decision above, the EFRAG Secretariat developed a high-level proposal to operationalise the ‘building block’ approach.
- 5 The overall intent is to use the same common building block of requirements in VSME and LSME and to leverage, whenever possible, on the content of the draft developed by Cluster 8, after having adjusted the language in order to make it compatible with the equivalent terms adopted in Set 1.
- 6 The left column lists the content of the common building block. The central column lists the additional components that would be ‘plugged’ by LSME in the common building block (additional modules). The right column lists additional contents in LSME that is applicable on a voluntary basis (‘the entity may’).

Building blocks – LSME and VSME

BUILDING BLOCKS – VSME AND LSME (in red the modules that are ‘LSME plugged-in components’ into the VSME block) [the code of the DRs is the same used in Set 1]

Common building block	LSME plugged in component	LSME optional component
BP 1		
BP 2		
GOV 1 simplified		
SBM 1 simplified	SBM 1 – revenues by sector SBM 1 – tobacco, etc.	SBM 2 - Views and interests of stakeholders
Materiality matrix (list of matters identified as material)	SBM 3 simplified	Material opportunities Positive material impacts
	IRO 1 and 2	
Strategy/Targets/Progresses on material sustainability matters (se Cluster 8)	Centralised P/A	Targets
Cluster 8 metrics (but using Set 1 language – no additional datapoints)	SFDR module (if not covered by Cluster 8)	

Question to EFRAG SR TEG

7 Do you agree with the proposed operationalisation of the ‘building block’ approach? Please explain.