

**[Draft] Voluntary ESRS v1
for Small- and Medium-Sized Enterprises
(VSME ESRS)**

LAST UPDATED 06.07.2023

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Editorial notes from Secretariat:

1. Text in **turquoise** correspond to SFDR PAI Table 1 (mandatory)
2. Text in **orange** corresponds to Benchmark Regulation Indicator.

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Objective, scope and context

- 1 The objective of this [draft] Standard is to set requirements that Micro, Small- and Medium-Sized Undertakings within the meaning of Article 3 of Directive 2013/34/EU whose securities are not admitted to trading on a regulated market in the Union (in the following “SME” or “undertaking”) shall apply when they voluntarily provide a sustainability statement.
- 2 This [draft] Standard is applicable to all SMEs regardless of the sector of activity using standardized requirements to inform key stakeholders on sustainability related matters. It is expected to support SMEs in their dialogue with counterparties such as large undertakings that require data to SMEs in their value chain and lenders, as it sets disclosures aimed at meeting the users’ needs of such counterparties. This [draft] Standard also offers a management tool for sustainability matters for all undertakings that want to engage in a process of measuring, monitoring and managing considering relevant information. This standard is appropriate for any SME undertaking that bears an interest (i) to engage in the Green Transition, (ii) to be able to use sustainability reporting as a good practice relevant for the implementation of the business strategy and as a management tool.
- 3 In particular, this [draft] Standard aims at:
 - (a) enabling the inclusion of SMEs in the transition process towards a low carbon economy;
 - (b) reducing the cost of transition for SMEs;
 - (c) facilitating access to sustainable finance;
 - (d) satisfying the proportionate sustainability criteria that will be requested to SMEs by stakeholders; and
 - (e) mitigating the outcomes of the so-called trickle-down effect¹
- 4 The reporting areas of this [draft] Standard provide the undertaking with guidance for the implementation of an initial level of actions for environmental, social, and business conduct (governance) matters. This [draft] Standard also represents the entry-level building-block of reporting that may facilitate the integration with other more advanced ESRS levels (ESRS for Listed Small- and Medium-Sized Undertakings (LSME ESRS) or “full” ESRS for Large Undertakings) and with possible future sector-specific standards (“advanced level” of voluntary reporting disclosures). **[NOTE: THIS PARAGRAPH WILL BE MOVED TO BASIS FOR CONCLUSIONS]**
- 5 This [draft] Standard is non-authoritative and complements the European Sustainability Reporting Standards. It derives its General Requirements and General Disclosure from ESRS for large undertakings adjusted to be proportionate to SMEs.

¹ The trickle-down or value chain effect, an effect [EFAA](#) identified in relation to financial reporting. This effect is where SMEs that are not directly within scope of the proposed CSRD end up having to prepare sustainability information in any case to satisfy the information needs of larger, ‘in scope’ companies/stakeholders that are in their value chain.

General requirements

- 6 This section sets out the general requirements that SME shall comply with when preparing and presenting sustainability-related information.

1. Categories of disclosures

1.1 Complying with [draft] VSME ESRS

- 7 The SME shall disclose, in accordance with this [draft] Standard, material information regarding negative impacts and risks in relation to environmental, social, and business conduct (governance) matters. The information shall enable the understanding of the undertaking's negative impacts on those matters and how they affect the undertaking's development, performance and position.
- 8 The undertaking may disclose all the material information regarding positive impacts in relation to environmental, social, and governance matters.
- 9 The undertaking may disclose sustainability-related financial opportunities that generate or are likely to generate material financial effects in the short-, medium- or long- term.
- 10 Micro undertakings may limit their sustainability statement to Disclosure Requirement 1 and the metrics part of this [draft] Standard (paragraphs 60 to 83) that defines a minimum data-set. Accordingly, they are not subject to paragraphs 19 and 20.
- 11 Medium sized undertakings may apply on a voluntary basis the more advanced level of LSME ESRS.

1.2 [draft] VSME ESRS structure and reporting areas

- 12 This [Draft] ESRS is composed of the following:
- (a) general requirements;
 - (b) general disclosures for:
 - (i) **governance**: the governance processes, controls and procedures used to monitor and manage impacts and risks;
 - (ii) **strategy**: how the undertaking's strategy and business model interact with its material impacts and risks and the related material topics and subtopics,;
 - (iii) **management of material topics and subtopics** ; the process(es) by which the undertaking manages material sustainability matters through policies, actions and targets; and
 - (c) **metrics**, how the undertaking measures its performance, with key indicators for:
 - (i) environmental;
 - (ii) social; and
 - (iii) business conduct (governance).

2. Qualitative characteristics of information

- 13 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.

3. Double materiality as the basis for sustainability disclosures

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

3.1 Stakeholder and their relevance to the materiality assessment process

- 15 Stakeholders are those who can affect or be affected by the undertaking. There are two main groups of stakeholders:
- (a) affected stakeholders: individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking’s activities and its direct and indirect **business relationships** across its value chain; and
 - (b) users of **sustainability statements**: 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, civil society and non-governmental organisations, governments, analysts and academics.
- 16 Some, but not all, stakeholders may belong to both groups defined in paragraph 15. An SME may engage with stakeholders in its sustainability materiality assessment.

3.2 Material matters and materiality of information

- 17 Performing a materiality assessment is necessary for the undertaking to identify the material impacts and risks to be reported. Materiality assessment is the starting point for sustainability reporting under ESRS.
- 18 A sustainability matter is “material” when it meets the criteria defined for impact materiality or financial materiality or both.
- 19 Irrespective of the outcome of the materiality assessment, the undertaking shall always disclose the information required by Disclosure Requirements 1-7 on:
- (a) basis for preparation;
 - (b) governance;
 - (c) strategy.
- 20 The undertaking shall report on policies and actions in relation to all its material sustainability matters and also on metrics if (a) metric(s) for the respective sustainability matter exist(s) (see Disclosure Requirements 8 to 15).

3.3 Impact Materiality

- 21 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-, and long-term time horizons. Impacts includes those connected with the undertaking’s own operations and value chain, including through its products and services as well as through its business relationships.
- 22 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:
- (a) the scale;
 - (b) scope; and
 - (c) irremediable character of the impact.
- 23 In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

3.4 Financial materiality

- 24 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 could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term. Risks may derive from past events or future events. 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 attributable to business relationships with other undertakings or stakeholders beyond the scope of consolidation used in the preparation of financial statements.
- 25 Dependencies from natural and social resources are sources of financial risks. 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.
- 26 The materiality of risks is assessed based on a combination of the likelihood of occurrence and the potential magnitude of the financial effects.

4 Preparation and presentation of sustainability information

- 27 This chapter provides general requirements to be applied when preparing and presenting sustainability information.

4.1 Presenting comparative information

- 28 The undertaking shall disclose comparative information in respect of the previous period for all metrics disclosed in the current period. When such information would be relevant to an understanding of the current period's sustainability statement, the undertaking shall also disclose comparative information for narrative sustainability disclosures.

4.2 Time horizons

- 29 If the undertaking adopts short-, medium- or long-term time horizons when preparing its sustainability statement, it shall adopt the following intervals as of the end of the reporting period:
- (a) for the short-term time horizon: the period adopted by the undertaking as the reporting period in its financial statements;
 - (a) for the medium-term time horizon: from the end of the short-term reporting period per (a) above to five years; and
 - (b) for the long-term time horizon: more than five years.

4.3 Consistency and connectivity of disclosures

- 30 The undertaking:
- (a) shall report sustainability related information that is consistent with its financial statements, and
 - (b) may connect its financial and sustainability related information through appropriate references or reconciliations.

4.4 Location of the sustainability statement and incorporation by reference

- 31 The undertaking shall present its sustainability statement in a separate report or, if applicable, may present it as a distinct part of or integrated in the management report.
- 32 To avoid duplication of reported information the undertaking may refer in its sustainability statement to disclosures that it reports in other parts of its corporate reporting that are released at the same time and as accessible as the sustainability statement (incorporation by reference).

4.5 Proportionality

- 33 The undertaking shall report on sustainability matters considering proportionality. Proportionality is defined by what is available or accessible for the undertaking at an affordable, reasonable and feasible cost. Proportionality should take the characteristics of SMEs and the scale and complexity of their activities into account. This voluntary standard is providing the Disclosure Requirements proportionate to SME.

4.6 Optional disclosures

- 34 The undertaking may provide additional optional, sector-agnostic or sector-specific disclosures not mandated by this standard. In particular, the undertaking may:
- (a) report on *its entity-specific* sustainability information related to material sustainability topics and subtopics; or
 - (b) disclose its opportunities related to material sustainability topics and subtopics that have or may have financial effects. The undertaking should not report on opportunities for which the undertaking has not put in place or does not plan to put in place concrete actions to pursue them, accompanied by appropriate resources.
 - (c) *report on the additional EU law module of this standard (Appendix C) to be compliant with the following EU regulations: Sustainable Finance Disclosure Regulation, Benchmark Regulation and Capital Requirement Regulation (Pillar 3 ESG). This may increase attractiveness from the investors stand-point.*
- 35 The information shall be:
- (a) reported alongside the most related Disclosure Requirements of this [draft] Standard and;
 - (b) reflect the qualitative characteristics of information (paragraph 1).

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

- 36 The undertaking is not required to disclose classified information or sensitive information, even if such information is considered material.
- 37 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, the undertaking may nevertheless omit that specific piece of information if it:
- (a) is secret;
 - (b) has commercial value because it is secret; and
 - (c) has been subject to reasonable steps by the undertaking to keep it secret.
- 38 The undertaking shall make every reasonable effort to ensure that beyond the omitted information, the overall relevance of the disclosure is not impaired.

General Disclosures

5 Basis for preparation

Disclosure Requirement 1 – General basis for preparation of the sustainability statement

- 39 **The undertaking shall disclose the general basis for preparation of the sustainability statement.**
- 40 The undertaking shall disclose the following information:
- (a) whether the sustainability statement has been prepared on a consolidated or individual basis;
 - (b) for consolidated sustainability statement, a specification of the related reporting scope (i.e. subsidiaries); and
 - (c) if applicable, to what extent the sustainability statement covers the undertaking's upstream and downstream value chain.
- 41 The undertaking shall state if it has applied:
- (a) as micro undertaking only the key metrics part of this [draft] Standard (paragraph 60 to 83) ;
 - (b) this VSME [draft] Standard
 - (i) excluding the additional EU law module; or
 - (ii) including the additional EU law module.

Disclosure Requirement 2 – Disclosures in relation to specific circumstances

- 42 **The undertaking shall provide disclosures in relation to specific circumstances.**
- 43 The undertaking may report this information alongside the disclosures to which they refer.

Sources of estimation and outcome uncertainty

- 44 When significant estimation uncertainty or significant outcome uncertainty exists, the undertaking shall:
- (a) identify metrics it has disclosed that have significant estimation uncertainty; and
 - (b) per those metrics disclose information about the assumptions it makes related to the information it discloses.

Changes in preparation or presentation of sustainability information

- 45 When changes in the preparation and presentation of sustainability information occur compared to the previous reporting period(s), such as the redefinition or replacement of a metric (or target), the undertaking shall:
- (a) explain the changes; and
 - (b) where possible with reasonable effort, provide restated comparative figures.

Reporting errors in prior periods

- 46 When material prior period errors exist, the undertaking shall disclose:
- (a) the nature of the prior period material error;
 - (b) where possible with reasonable effort, the correction for the previous prior period disclosed.

Incorporation by reference

- 47 When using incorporation by reference (see paragraph 32), the undertaking shall disclose in its sustainability statement a reference to the information incorporated by reference.

6 Governance¹³

Disclosure Requirement 3 – Governance bodies responsibilities

- 48 **The undertaking shall provide information about its governance in relation to sustainability matters.**

49 The disclosure shall describe:

- (a) the governance structure, in relation to sustainability matters. If applicable in terms of roles and responsibilities of the highest governance body or of an individual in its organisation, in exercising oversight on material sustainability matters; and
- (b) **when there is a governance body, the related gender diversity ratio¹⁵.**

7 Strategy

Disclosure Requirement 4 – Business model, strategy and value chain

- 50 **The undertaking shall disclose the key elements of its strategy that relate to or impact sustainability matters and its business model.**

51 The disclosure shall include the following information on business model(s) and the key elements of its strategy that relate to or affect sustainability matters:

- (a) a description of products and/or services offered;
- (b) a description of market(s) the undertaking operates in (B2B, wholesale, retail, geography);
- (c) a description of, and if applicable the key elements of its strategy that relate to or affect sustainability matters; and
- (d) if applicable, the participation to business associations, underwriting of ethical codes of conduct.

52 The undertaking shall disclose a general description of its value chain, including;

- (a) Main features of its upstream and downstream value chain;
- (b) main business actors (such as key suppliers, customers distribution channels and end-users) and their relationship to the undertaking.

Disclosure Requirement 5 – Key stakeholders

53 **Where the undertaking engages with stakeholders, it may disclose:**

54 The principle followed under this disclosure is to enable a better understanding of the effect of the undertaking on the value chain (goods/services purchased and sold).

55 The disclosure shall include:

- (a) the list of its key stakeholders; and
- (b) a brief description of the related engagement activities.

¹³ Governance refers to the way that organizations are managed at the highest level, and the systems for doing this (source: online Cambridge Dictionary)

¹⁵ Indicator #13 Table 1 of Annex 1 (“Board gender diversity”)

8 Material topics and subtopics management

Disclosure Requirement 6 – Material sustainability matters

- 56 **The undertaking shall disclose its material sustainability matters and, if applicable, how they interact with its strategy.**
- 57 The undertaking shall disclose its material sustainability matters (as defined in Appendix B “List of sustainability matters”) resulting from its materiality assessment (see chapter 3.3 *Impact materiality* and 3.4 *Financial materiality*). The disclosure shall include the following:
- (a) the undertaking’s material sustainability matters, including brief description of them and how they affect people or the environment; and
 - (b) if applicable, the current and anticipated effects of material sustainability matters on present or future revenues or equity and, if applicable, the effects on its strategy and decision-making.

Disclosure Requirement 7 – Material matters and related policies, actions, metrics and targets

- 58 **The undertaking shall disclose whether it has a sustainability strategy including policies, actions, metrics and/or targets.**
- 59 The disclosure shall include:
- (a) whether it has a sustainability strategy and if so, how it is affected by material sustainability matters; and
 - (b) regarding material sustainability matters:
 - (i) if applicable, a description of the **policies** defined to address them. When describing its policies the undertaking shall consider: the general objectives and which material matters the policy is relating to; its scope in terms of activities, value chain, geographies and, if relevant, affected stakeholder groups; a reference, if applicable, to the third-party standards or initiatives the undertaking commits to respect through the implementation of the policy;
 - (ii) if applicable a description of the **actions** taken to address them. When describing its actions the undertaking shall consider: the list of key actions taken in the reporting year and planned for the future, the scope of the key actions (i.e., coverage in terms of activities, value chain geographies and, where applicable, affected stakeholder groups); the time horizon under which the undertaking intends to complete each key action. In particular, if material, it shall disclose the actions taken in the reporting period to improve its energy efficiency and to lower related carbon emissions and the related possible implications in terms of risks and opportunities;
 - (iii) if applicable, a description of the **metrics** used and **targets** set for improvement and what is achieved so far.

Metrics

9 Environment

Disclosure Requirement 8 – Energy and carbon emissions (CO₂)

- 60 **The undertaking shall disclose the actions taken in the reporting period to improve its energy efficiency and to lower related carbon emissions.**
- 61 The objective of this disclosure is to provide an understand of the impacts of the undertaking on the environment through energy usage and carbon emissions and whether it improves energy efficiency, and also lower its carbon emissions.
- 62 The disclosure shall include:
- (a) total energy consumption in MW, with a breakdown of:¹⁶
 - (i) fossil fuels;
 - (ii) electricity, as expressed in utility billings (with the breakdown between renewable and non-renewable sources);¹⁷
 - (b) The changes in total energy consumption expressed in MWh referred to the previous reporting period;
 - (c) CO₂ equivalent tons (tCO₂-eq) of GHG emissions (commonly defined as scope 1 and scope 2); and²⁰
 - (d) the changes in direct emissions referred to the previous reporting period.

Disclosure Requirement 9 – Pollution of air, water and soil

- 63 **The undertaking shall disclose the pollutants that it emits through its own operations.**
- 64 The objective of this disclosure is to provide an understanding of the *emissions* that the undertaking generates in the air, water and *soil* in its own operations.
- 65 The undertaking shall disclose the pollutants that it emits through its own operations, into air, water and soil (pollutant listed in Annex II of the E-PRTR Regulation (European Pollutant Release and Transfer Register)²¹

Disclosure Requirement 10 – Biodiversity

- 66 **The undertaking shall report metrics related to its material impacts on biodiversity and ecosystems.**
- 67 The objective of this disclosure is to provide an understanding of the performance of the undertaking against material impacts on biodiversity and ecosystems change.

¹⁶ Regulation (EU) 2019/2088 (SFDR), indicator #5, Table 1.

¹⁷ Regulation (EU) 2019/2088 (SFDR), indicator #5, Table 1, Annex 1.

²⁰ Regulation (EU) 2019/2088 (SFDR), indicator #1 and #2, Table 1, Annex 1; and Benchmark, Articles 5 (1), 6 and 8 (1).

²¹ Regulation (EU) 2019/2088 (SFDR) indicator #2 in Table 2 of Annex 1; indicator #8 in Table 1 of Annex 1; indicator #1 in Table 2 of Annex 1; indicator #3 in Table 2 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (respectively “Emissions of ozone-depleting substances”).

- 68 If the undertaking identified sites located in or near biodiversity-sensitive areas that it is negatively affecting the undertaking shall disclose the number and area (in hectares) of sites owned, leased or managed in or near these protected areas or key biodiversity areas.²²

Disclosure Requirement 11 – Resource use, circular economy, water consumption and waste management

- 69 **The undertaking shall describe how it manages material resource use, water consumption, and waste.**
- 70 The objective of this disclosure is to provide an understanding of the impact of the undertaking through resource use, circular economy, consumption and waste management on the environment.
- 71 The disclosure shall include:
- (a) A description of recycled goods and material bought and sold (expressed in the metric system commonly used for the specific type of product/good/material by the undertaking);
 - (b) rates of recyclable content in products and their packaging;
 - (c) Water consumption as expressed cubic meters;
 - (d) Water discharge if applicable (e.g. water used and wasted during the process);
 - (e) A description of the waste generation (expressed in the metric system commonly used for the specific type of product/good/material by the undertaking);
 - (f) A description of the waste diverted to recycle or reuse (expressed in the metric system commonly used for the specific type of product/good/material by the undertaking).

10 Social

Disclosure Requirement 12 – Workforce – General or workforce characteristics

- 72 **The undertaking shall provide information about its workforce.**
- 73 The objective of this disclosure is to provide an understanding the nature of its workforce and how the undertaking operates as a responsible employer.
- 74 The disclosure shall include in full-time equivalents²³ or head count:
- (a) number of employees by region;
 - (b) number of temporary and permanent employees; and
 - (c) breakdowns by gender.

Disclosure Requirement 13 – Workforce - Health and safety

- 75 **The undertaking shall provide information about its measures on health and safety.**
- 76 The objective of this disclosure is to provide an understanding of how the undertaking ensures a healthy and safe working environment.
- 77 **The disclosure shall include:**
- (a) **working days lost due to different reasons (absenteeism, illness, and similar); and**

²² Regulation (EU) 2019/2088 (SFDR), indicator #7, Table 1.

²³ The calculation of full-time equivalent (FTE) is an employee's scheduled hours divided by the employer's hours for a full-time workweek.

- (b) work-related injuries occurred (including the “in itinerary” accidents also known as commuting accidents).²⁵

Disclosure Requirement 14 – Workforce – Equal remuneration, work-life balance and opportunities for development

- 78 **The undertaking shall provide information about its measures on equal remuneration, work-life balance and people development.**
- 79 The objective of this disclosure is to provide an understanding how the considers equal and fair treatment, development of professional skills and competences and balance between work and life of the workforce.
- 80 The disclosure shall include:
- (a) the percentage gap in pay between its female and male employees. The pay gap is defined as the difference of average pay levels between female and male employees, expressed as a percentage of the average pay level of male employees²⁶;
 - (b) the percentage of employees:
 - (i) entitled to take family-related leave, with a breakdown by gender; and
 - (ii) that took family-related leave, with a breakdown by gender.
 - (iii) Family-related leave includes maternity leave, paternity leave, parental level, and carers’ leave; and
 - (c) average number of training hours per employee and by gender related to the development of skills and competences, either through formal or informal forms of capacity building.

11 Business conduct

Disclosure Requirement 15 – Responsible Business Practices

- 81 **The undertaking shall provide information about its system to prevent and detect, investigate, and respond to allegations or incidents relating to corruption and bribery.**
- 82 The objective of this disclosure is to provide an understanding how the undertaking prevents and detects, investigates, and responds to corruption and bribery.
- 83 The undertaking shall disclose:
- (a) whether it has assessed the effectiveness of actions taken to address breaches in procedures and standards (including for instance a code of ethics) of anti-corruption and anti-bribery; and
 - (b) the number of convictions and the amount of fines for violation of anti-corruption and anti-bribery laws²⁷.

²⁵ Benchmark Regulation (EU) 2019/1816, indicator “Weighted average ratio of accidents, injuries, fatalities”, section 1 and 2 of Annex 2.

²⁶ Regulation (EU) 2019/2088 (SFDR) indicator #12 in Table 1 of Annex 1 of the related Delegated Regulation and benchmark Regulation (EU) 2020/1816, indicator “Weighted average gender pay gap” in section 1 and 2 of Annex 2.

²⁷ Benchmark 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.

Transitional provision

12 Comparative information

- 40 The undertaking applying this [draft] Standard for the first-time, may defer the presentation of comparative information as required by paragraph 28 by one year, to ease the first-time application.

Appendix A: Defined terms

84 This appendix is integral part of the [draft] Standard.

Defined term	Definition
Actions	Actions refer to (i) actions and action plans that are undertaken to ensure that the undertaking delivers against targets set and through which the undertaking seeks to address material topics and subtopics; and (ii) decisions to support these with financial, human or technological resources.
Comparability	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.
Direct GHG emissions (Scope 1)	GHG emissions from sources that are owned or controlled by the undertaking.
Double materiality	Has two dimensions: impact materiality and financial materiality. A sustainability matter meets therefore the criteria of double materiality if it is material from either the impact perspective or the financial perspective or both perspectives.
Faithful representation	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.
Financial materiality	A sustainability matter is material from a financial perspective if it triggers or may trigger material financial effects on the undertaking.
Greenhouse Gases GHG	are those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of terrestrial radiation emitted by the Earth's surface, the

Defined term	Definition
	atmosphere itself and by clouds. This property causes the greenhouse effect.
Impact materiality	A sustainability matter is material from an impact perspective when it pertains to the undertaking's actual or potential, positive or negative on people or the environment over the short-, medium- or long-term. A material sustainability matter from an impact perspective includes impacts caused or contributed to by the undertaking and impacts which are directly linked to the undertaking's operations, products, and services through its business relationships.
Indirect GHG emissions (Scope 2)	are a consequence of the operations of the undertaking but occur at sources owned or controlled by another company. Scope 2 GHG emissions are indirect emissions from the generation of purchased or acquired electricity, steam and heat, or cooling consumed by the undertaking.
Indirect GHG emissions (Scope 3)	are a consequence of the operations of the undertaking but occur at sources owned or controlled by another company. Scope 3 GHG emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 GHG emissions are considered as estimated emissions in comparison with Scope 1 and 2 as their calculation is based on a combination of methods and primary and secondary data ranging from precise figures (supplier-specific or sites-specific methods) to extrapolated figures (average-data or spend-based methods).
Listed SMEs	
Materiality	A sustainability matter is “material” for the undertaking when it meets the criteria defined for impact materiality or financial materiality or both.
Policy	A set or framework of general objectives and management principles that the undertaking uses for decision-making. A policy implements the undertaking's strategy or management decisions related to a material sustainability matter. Each policy is under the responsibility of defined person(s), specifies its perimeter of application,

Defined term	Definition
	<p>and includes one or more objectives (linked when applicable to measurable targets). A policy is implemented through actions or action plans.</p> <p>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.</p> <p>If the undertaking has not yet formalised a policy but has implemented actions or defined targets through which the undertaking seeks to address material sustainability topics and subtopics, it may disclose them.</p>
Relevance	<p>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). 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.</p> <p>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. Information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.</p> <p>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 [draft] Standard).</p>
SME	<p>Small and medium-sized enterprise as currently defined by Article 3 of Directive 2013/34/EU:</p> <p>1. Micro undertakings shall be undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:</p> <p>(a) Balance sheet total: EUR 350 000;</p>

Defined term	Definition
	<p>(b) Net turnover: EUR 700 000; (c) Average number of employees during the financial year: 10.</p> <p>2. Small undertakings shall be undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:</p> <p>(a) balance sheet total: EUR 4 000 000; (b) net turnover: EUR 8 000 000; (c) average number of employees during the financial year: 50.</p> <p>Member States may define thresholds exceeding the thresholds in points (a) and (b) of the first subparagraph. However, the thresholds shall not exceed EUR 6 000 000 for the balance sheet total and EUR 12 000 000 for the net turnover.</p> <p>3. Medium-sized undertakings shall be undertakings which are not micro-undertakings or small undertakings and which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:</p> <p>(a) balance sheet total: EUR 20 000 000; (b) net turnover: EUR 40 000 000; (c) average number of employees during the financial year: 250.</p> <p>4. Listed SME – we also need a definition of those according to the accounting directive and to scope them out from SME – needs to be fully aligned with the definition in the directive!!</p> <p>Those criteria might change over time based on regulation of the European Union.</p> <p>https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32003H0361</p>
Stakeholder	<p>Stakeholders are those who can affect or be affected by the undertaking. There are two main groups of stakeholders:</p> <p>(a) affected stakeholders: individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking’s activities and its direct and indirect</p>

Defined term	Definition
	<p>business relationships in the value chain; and</p> <p>(b) users of sustainability reporting: 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, civil society organisations and non-governmental organisations.</p> <p>Some, but not all, stakeholders may belong to the two groups.</p>
Sustainability	<p>refers to Sustainable development. It was defined in the World Commission on Environment and Development's 1987 Brundtland report 'Our Common Future' as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.</p>
Targets	<p>Measurable, outcome-oriented and time-bound goals that the undertaking aims to achieve in relation to material sustainability topics and subtopics. They may be set voluntarily by the undertaking or derive from legal requirements on the undertaking.</p>
Understandability	<p>Sustainability information is understandable when it is clear, and concise. Understandable information enables any reasonable knowledgeable user to readily comprehend the information being communicated.</p>
Undertaking	<p>refers to the SME (company or organization) adopting voluntarily the use of this [draft] Standard to prepare a sustainability statement.</p>
Verifiability	<p>Sustainability information is verifiable if it is possible to corroborate either such information itself or the inputs used to derive it. 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.</p>

Appendix B: List of sustainability matters used for materiality assessment

This appendix is an integral part of this [draft] Standard.

Sustainability matters covered in [draft] topical ESRS		
Topic	Sustainability matter: Sub-topic	Sustainability matter: sub-sub topic
Climate change	<ul style="list-style-type: none"> Climate change adaptation Climate change mitigation Energy 	
Pollution	<ul style="list-style-type: none"> Pollution of air Pollution of water Pollution of soil Pollution of living organisms and food resources Substances of concern Substances of very high concern 	
Water and marine resources	<ul style="list-style-type: none"> Water Marine resources 	<ul style="list-style-type: none"> Water consumption Water withdrawals Water discharges Water discharges in the oceans Extraction and use of marine resources
Biodiversity and ecosystems	<ul style="list-style-type: none"> Direct impact drivers of biodiversity loss 	<ul style="list-style-type: none"> Climate Change Land-use change, fresh water-use change and sea-use change Direct exploitation Invasive alien species Pollution Others
	<ul style="list-style-type: none"> Impacts on the state of species 	Examples: <ul style="list-style-type: none"> Species population size Species global extinction risk
	<ul style="list-style-type: none"> Impacts on the extent and condition of ecosystems 	Examples: <ul style="list-style-type: none"> Land degradation Desertification Soil sealing
	<ul style="list-style-type: none"> Impacts and dependencies on ecosystem services 	
Circular economy	<ol style="list-style-type: none"> Resources inflows, including resource use Resource outflows related to products and services Waste 	

Sustainability matters covered in [draft] topical ESRS		
Topic	Sustainability matter: Sub-topic	Sustainability matter: sub-sub topic
Own workforce	<ul style="list-style-type: none"> Working conditions 	<ul style="list-style-type: none"> 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 rate of workers covered by collective agreements Work-life balance Health and safety
	<ul style="list-style-type: none"> Equal treatment and opportunities for all 	<ul style="list-style-type: none"> 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
	<ul style="list-style-type: none"> Other work-related rights 	<ul style="list-style-type: none"> Child labour Forced labour Adequate housing Privacy
Workers in the value chain	<ul style="list-style-type: none"> Working conditions 	<ul style="list-style-type: none"> 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
	<ul style="list-style-type: none"> Equal treatment and opportunities for all 	<ul style="list-style-type: none"> Gender equality and equal pay for work of equal value Training and skills development The employment and inclusion of persons with disabilities Measures against violence and harassment in the workplace Diversity
	<ul style="list-style-type: none"> Other work-related rights 	<ul style="list-style-type: none"> Child labour Forced labour Adequate housing Water and sanitation Privacy

Sustainability matters covered in [draft] topical ESRS		
Topic	Sustainability matter: Sub-topic	Sustainability matter: sub-sub topic
Affected communities	<ul style="list-style-type: none"> Communities' economic, social and cultural rights 	<ul style="list-style-type: none"> Adequate housing Adequate food Water and sanitation Land-related impacts Security-related impacts
	<ul style="list-style-type: none"> Communities' civil and political rights 	<ul style="list-style-type: none"> Freedom of expression Freedom of assembly Impacts on human rights defenders
	<ul style="list-style-type: none"> Rights of indigenous communities 	<ul style="list-style-type: none"> Free, prior and informed consent Self-determination Cultural rights
Consumers and end-users	<ul style="list-style-type: none"> Information-related impacts for consumers and/or end-users 	<ul style="list-style-type: none"> Privacy Freedom of expression Access to (quality) information
	<ul style="list-style-type: none"> Personal safety of consumers and/or end-users 	<ul style="list-style-type: none"> Health and safety Security of a person Protection of children
	<ul style="list-style-type: none"> Social inclusion of consumers and/or end-users 	<ul style="list-style-type: none"> Non-discrimination Access to products and services Responsible marketing practices
Business conduct	<ul style="list-style-type: none"> Corporate culture Protection of whistle-blowers Animal welfare Political engagement Management of relationships with suppliers including payment practices 	
	<ul style="list-style-type: none"> Corruption and bribery 	<ul style="list-style-type: none"> Prevention and detection including training Incidents