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## Revised LSME

### Cover Note

#### Objective

- 1 The objective of this session is to update the SRB members on the status of the project and changes made so far to ESRS LSME ED (from now on Revised LSME) to respond to the comments received in the public consultation (including field test) and the feedback received from SR TEG members on the documents of [18 July SR TEG meeting](#) where the EFRAG Secretariat proposed changes were presented.
- 2 On [12 September](#) the SR TEG discussed in an editorial session the changes to be made in the Revised LSME in Section 1 “General requirements” (closed meeting).
- 3 On [19 September](#) the SR TEG discussed in an editorial session the changes to be made in the Revised LSME in Section 2 “General disclosures” and 3 “Policies, actions and targets”.
- 4 The other sections (topical sections) will be discussed in the SR TEG on 7 October.
- 5 The summary of those changes per section is portrayed in the table below.

#### Background of the discussions and state of play

- 6 EFRAG is currently working on the Revised LSME following the feedback received during the public consultation for a more simplified standard and according to the tentative decision taken by EFRAG SRB on [4 July 2024](#).
- 7 While the direction is to streamline the standard as much as possible compatibly with the content of the CSRD, EFRAG would like to avoid any undue loss of information for users and investors.
- 8 The architecture of the standard will stay unchanged, with the exception of moving content from AR to an IG document (see below). Whenever possible, the EFRAG Secretariat is using directly text of VSME to replace the content of the LSME ED in the Revised LSME, however in many cases this is not technically possible, as the text of LSME needs to support the qualitative characteristics of quality and auditability of the information. When LSME ED is used as a basis for the content, the EFRAG Secretariat anyway streamlining it, based on the outcome of the consultation and field test.

**Revised LSME IG and approach to may datapoints - non authoritative implementation guidance issued jointly with the draft standard**

- 9 A streamlined standard would respond to the feedback of the consultation, however LSMEs are less resourced than entities in scope of Set 1 and would need guidance, to reduce their dependency from consultancy guidance. The reduction of number of pages do not necessarily correspond to an advantage from this point of view. The EFRAG Secretariat is proposing to move to a non-authoritative IG document part of the AR. The content that corresponds to essential elements of mandatory provisions (e.g. AR to the Entity Specific concept) needed to support comparability and auditability and to deliver the appropriate characteristics of quality will continue to stay in the Delegated Act while other parts of the AR would be moved to the IG.
- 10 For all the voluntary datapoints (“may disclose”) in Revised LSME , tentative approach is to include a reference to Set 1 for guidance and specific ARs. This approach reduces the number of pages and contribute to streamlining of the standard. At the same time the “may” datapoints are standardised as the relevant guidance of Set 1 applies. Furthermore, to facilitate the readability of the Standard, the content of Set 1 related to those references is included as an Appendix of the “non-binding guidance” to be issued together with LSME.

**Key requirements in ESRS 1 and value chain**

- 11 The key requirements in ESRS 1 (materiality, value chain, entity-specific) will stay unchanged, due their role in securing the qualitative characteristics of information and auditability.
- 12 Some new paragraphs have been drafted on value chain, that incorporate in the standard key clarifications to the general requirements from the content of IG 2 value chain (to support an understanding of the hot spot approach i.e. do not need to collect data from every counterparty and VC coverage is limited to selected disclosures).
- 13 LSME is the legal cap for the content of VC datapoints: the ESRS for large undertakings cannot result in preparers having to collect information from their counterparties in the value chain that go beyond the content of LSME. In SR TEG discussions, members questioned whether sector ESRS may add VC datapoints that do not have a corresponding datapoint in LSME. This is because, in the context of Revised LSME, pending the finalisation of sector ESRS, it is not feasible to anticipate whether and which VC datapoints could be needed in sector ESRS. OG and MQC ED do not add new VC datapoints, but this is due to the fact that their business model is typically vertically integrated.
- 14 For this reason, the current value chain provisions of Revised LSME (Section 1) has been enhanced to clarify more explicitly the link between the entity specific disclosure of LSME (i.e. the requirement to include in the sustainability statements additional disclosure on an entity-specific basis when they are material but not covered by LSME) and the sector specific disclosure (i.e. when appropriate entity specific shall cover sector disclosure not covered by LSME).
- 15 Some EFRAG SR TEG members would welcome, in addition to the suggested enhancement to this text, legal certainty as to whether sector ESRS may add VC datapoints that do not have a corresponding datapoint in LSME and whether there will be future delegated acts on LSME sector ESRS.

## Outreach on Revised LSME

- 16 Considering the detailed feedback obtained in the consultation and field test, EFRAG Secretariat considers that a re-exposure would not bring significantly new evidences on Revised LSME. However, in order to confirm with stakeholders the direction of travel on the specific changes (and proposed reductions of datapoints), the EFRAG Secretariat is organising a series of workshops, inviting both those that participated in the consultation and field test, as well as the broader public:
- on the 26 of September (3 pm to 5 pm) for users/investors of LSME sustainability statement (incl. members of BAP, IAP, CMAP and other banking/investor representatives) to discuss if the Revised LSME, in spite of the new simplifications, still meets the needs of investors, which is an overarching objective of this standard in the provision of the CSRD. This workshop follows an open call for participants. On the 4 of October continuation of the workshop to discuss changes made in topical sections 4 (Environment), 5 (Social) and 6 (Business conduct).
  - On the 27 of September (9.30 am to 11.30 am) dedicated workshop for preparers (listed SMEs/SNCIs/proxy preparers).
  - On the 27 of September (3 pm to 5 pm) dedicated workshop for all other stakeholders interested in the Revised LSME (i.e., NGOs, civil society, national standard setters, associations and organisations, academics, consultants/auditors, etc.).
- 17 EFRAG Secretariat will also participate in a workshop (closed meeting) with ESMA and NCA on 14 October to present and discuss the Revised LSME to NCAs.

### Next steps

- 18 The EFRAG Secretariat will incorporate comments made during this session.
- 19 EFRAG Secretariat tentatively aims to proceed with the approval of [draft] ESRS LSME (including Basis for Conclusions) in the following dates:
- (a) 4 November 2024 with SR TEG (tentative)
  - (b) 13 November with SR Board (tentative), 27 November (possible continuation)
  - (c) 20 December Revised LSME package released to the EC (including CBA)
- 20 CBA will be reviewed considering the changes included in the [draft] Standard (i.e. clarification of key principles, decreasing of the number of datapoints, streamlining of the content, etc). The results presented in the revised CBA will be discussed with SR TEG and SRB.

## APPENDIX

### Changes to the draft Standard - Revised LSME

- 21 **Important note:** The changes portrayed in the table below are intermediary versions of the Revised LSME still subject to quality review and subject to further streamlining of the language and verification of the approach to VC. For a complete overview of the feedback from the public consultation and field test please refer to papers [05-02 of SR TEG 18 July](#).
- 22 The following tables portray the changes made in Section 2 and 3 (discussed on 19 September), 4, 5 and 6 (to be discussed at the SR TEG meeting on 7 October):

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
Section 2 to 6 SFDR datapoints	NA	<u>NA</u>	<p><u>Table 1</u>: Always mandatory (“shall disclose”)</p> <p><u>Table 2 and 3</u>: turned to voluntary (“may disclose”) except for where, if the DR is the only one pertaining to a topic, the datapoint is then kept mandatory (as “shall disclose”).</p> <p>Moved the EU Law Table of Section 2 (SBM-3) and Section 3 (PAT incl. Processes to engage and Processes to remediate) in the main body. The content was streamlined according to the new approach described above (Table 1 shall and Table 2 and 3 shall/may depending on the occasion) with references to the content of ESRS Set 1.</p>
Section 2 to 6 Architectural change of DR and datapoint structure	NA	NA	Pending the decision of SR TEG: Streamlined the structure of the paragraphs, where possible, making the DR and information requests more direct (datapoint request only)

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
			stated once + objective to assess the materiality of information).
Section 2 BP-2 Disclosures in relation to specific circumstances	Preparers expressed concern in relation to VC boundaries and on the availability of VC information	Preparers: Need of clarification on the meaning of the terms “reasonable effort  Most of users agreed  One NSS suggested to delete par. 9b, 10 and 12b, c for proportionality	Simplified requirements on outcome uncertainty and merged with sources of estimation.  <u>Use of phase-ins:</u> if the undertaking decides to use them but either/or E4, S1, S2, S3 and S4 is/are material, the undertaking then has to disclose that these topics were indeed assessed as material and disclose policies and actions if it has them in place
Section 2 GOV-1 The role of the administrative, management and supervisory bodies	identified by most preparers as either feasible or possible to prepare  Two other respondents suggested that some information (i.e. ex/non ex) is already available in relation to the general composition of the admin/management bodies	Majority of preparers agreed with DR-3. Listed SMEs and industry associations argued that EFRAG has gone beyond Article 19a by mandating disclosures that should be optional  Most users supported this DR  One NSS suggested to:  - reduce the granularity of par. 19 as granular disclosures of governance bodies of LSMEs without any relation to sustainability matters are not highly relevant due to their small size	Simplified language

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<p>- delete par 20c. because information on the body / person in charge of sustainability matters is enough</p>	
<p>Section 2 GOV-2 Due diligence</p>	<p>Most of preparers underlined the difficulties in implementing a due diligence process and the need to for more guidance</p> <p>Other respondents: need for more guidance</p>	<p>Only some preparers agreed with this DR. A SNCI, an undertaking association, and five industry associations argued for voluntary due diligence disclosures</p> <p>All users supported DR-4 on due diligence</p> <p>Others: majority agreed</p> <p>- one NSS suggested to delete this DR in line with the proportionality principle, as CS3D/due diligence target large undertakings only</p>	<p>Asking whether the undertaking has a due diligence process or not (SFDR indicator) and if so, it may briefly describe how and where it is reflected in its sustainability statement and if the process informed the materiality assessment.</p>
<p>Section 2 SBM-1 Strategy, business model and value chain</p>	<p>Preparers: majority find it highly challenging and costly and expressed the need for additional explanation on VC boundaries and concern on the identification of the list of significant ESRS sectors (par. 28b)</p>	<p>Preparers: majority agreed with SBM-1.</p> <p>Users: majority supported SBM-1. Need for clarification in relation to the scope of revenues from sectors such as fossil fuels and tobacco</p> <p>Others: Most agreed</p>	<p>Added in AR the possibility to list NACE codes in replacement of ESRS sectors (“..the undertaking may use NACE codes or the ESRS sector classification..”)</p> <p>Deleted the sustainability related goals of the strategy in terms of significant groups of products and services, customer</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>Users: Most stated that all datapoints are needed with the exception of the list of significant ESRS sectors</p>	<p>One NSS suggested to:</p> <ul style="list-style-type: none"> <li>- delete par. 28 a iv, no need to disclose service/products banned; too granular.</li> <li>- modify par. 28b eliminating reference to materiality assessment. “list of the significant ESRS sectors where the company or its subsidiaries operate or can potentially have a material impact”</li> <li>- delete par. 28d as this information is covered by the disclosure requirement SBM-3 on material impacts and risks and their interaction with strategy and business model(s) as well as disclosures on sustainability policies, actions, resources and targets</li> </ul>	<p>categories, geographical areas and relationships with stakeholders.</p>
<p>Section 2 SBM-2 Interests and views of stakeholders</p>	<p>Preparers: Most considered this possible to prepare with some effort or highly challenging and costly.</p> <p>Some preparers mentioned high costs and effort to implement a</p>	<p>Preparers: majority agreed / Additional clarification is needed on whether the dialogue itself is required or not. Suggestion also to change this DR in a voluntary one</p> <p>Users: all supported this DR</p>	<p>Aligned with VSME ED and it is a report if you have (“shall disclose”) asking:</p> <ul style="list-style-type: none"> <li>• The categories of stakeholders considered</li> <li>• A brief description of engagement activities</li> <li>• The outcome of those activities</li> </ul>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>stakeholders engagement and required more guidance to better understand the implications in the MA process</p> <p>Users: Most stated that all datapoints are needed.</p> <p>In particular, if the undertaking confirms that they have a process or sporadic engagement, the expectation should be to report only (i) type of stakeholders that it engaged via a drop-down menu, (ii) result of the engagement as these are the most important outputs</p>	<p>Others: majority agreed</p> <ul style="list-style-type: none"> <li>- one public authority suggested to add guidance to help LSMEs to better identify whether they have to report through describing the type of engagements covered</li> <li>- One public authority wants this disclosure to be mandatory also when a company does not do stakeholder engagement.</li> <li>- One NGO/user of sustainability statements feels that too much information has been eliminated from this DR and asks for reinstatement of several items from set 1.</li> </ul>	<p>How the interests and views of stakeholders are taken into account by the strategy and business model</p>
<p>Section 2</p> <p>SBM-3 Material impacts and risks and their interaction with strategy and business model</p>	<p>Preparers: Most found it possible to prepare with some effort or highly challenging and costly. Respondents required more guidance and underlined the</p>	<p>Preparers: majority agreed. Some argued that the current requirements are too granular</p> <p>Users: majority supported DR. Suggestion to have a pre-set list of biodiversity sensitive areas and to</p>	<p>Deleted the requirement on changes compared to the previous period (already included in BP-2).</p> <p>Deleted the requirement on specification of IRs that are covered by DRs included in LSME as opposed to those covered by entity-specific disclosure (for simplification)</p>



Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
<p>Section 2</p> <p>SBM-3 Material impacts and risks and their interaction with strategy and business model related to Environment</p>	<p>difficulties to estimate the financial implications of Irs</p> <p>Users: most stated that all datapoints are needed. Some respondents indicated that the requirement to report current financial effects and anticipated financial effects might be too detailed to ask from the LSMEs. Therefore, a starting question could be that if the reporting entity foresees any immediate financial impact.</p> <p>Some users also expressed issues in understanding the ARs where are located EU datapoints and guidance</p>	<p>only require information about incidents of forced labour if the country of operation is associated with any risks, ii. suggestion to only require sectoral and geographic distribution, while other aspects would be entity specific, iii. Additional guidance on the definitions of climate-related physical risk/transition risk, iv. Suggestion to exempt undertaking from conducting the value chain assessment if workers in the value chain are located exclusively in the EU.</p> <p>- one investment fund suggested in relation to “Own workforce” to reduce the number of mandatory reporting items in AR 18, 19 and 20. For instance requiring only types of own workers, sectoral, and geographic distribution.</p>	<p>On Environment: Deleted the explanation of whether each identified climate related risk is considered as physical or transition risk. Specifying physical and transition risk is already being asked in Section 4, E(6).</p> <p>Also deleted the resilience analysis (AR 17 in track changes of paper 06-02) to align with the decision that SBM-3 in main body in LSME does not include resilience analysis.</p>
<p>Section 2</p> <p>IR-1 Processes to identify and assess</p>	<p>Most of preparers considered this DR possible to prepare with some effort.</p>	<p>Majority agreed with this DR.</p> <p>Called for additional guidance, including examples of risks and impacts in different sectors.</p>	<p>Deleted the requirement to disclose if the process has changed compared to the prior reporting period (for simplification)</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
material impacts and risks	need for more guidance to standardize the process with practical example		
Section 2 IR-2 Disclosure Requirements in ESRS LSME covered by the undertaking’s sustainability statement	Preparers: Most considered this DR possible to prepare with some effort.  Users: Most of the users stated that all datapoints are needed.	NA	discussed with SR TEG if language simplification is enough on the request of an explanation of how the undertaking has determined the material information in relation to IROs, including the use of thresholds and how it has implemented the criteria of Section 1 chapter 3.2 material matters and materiality of information
Section 3 EU Law table	Preparers in the field test workshop indicated that the EU Law table should be made clearer (i.e., move back to main body from AR where it was in the ED)	NA	Moved the table to the main body of IR-3 and IR-4.
Section 3 PAT on E, S, and G	Preparers and users suggested that Section 3 AR is long and that it should be streamlined  Centralised approach is complex and difficult	a majority agreed, but some disagreed, indicating some reservations about the complexity and applicability of these requirements for certain entities.  The main reasons for disagreement included concerns about the extensive number of Application	Simplifications were made in AR, turning some mandatory datapoints to voluntary (“may disclose”). Merging and simplifications in some Application requirements to avoid duplications and to improve the readability of the section
Section 3 Policies on Environment except for Transition plan			Turned some policies on Environment to voluntary disclosures (“may disclose”)

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		Requirements (AR) on plans, actions, and targets (PAT), which were seen as overly complex and burdensome.	
Section 3 Climate transition plan	NA	Preparers: majority agreed with report if you have approach Users: majority agreed Other: Majority agreed	For transition plan, if the undertaking has one it shall disclose that it has one and how targets are compatible; if it does not have it, it may explain / indicate whether and how it will adopt one. If no reference to Transition Plan is made in the sustainability report, users of this statement can infer that nothing is happening on that front.
Section 4 E1to E5 – Contextual information	NA	NA	Contextual information related to metrics now harmonized across E topics in new AR.
Section 4 E1-1– Energy consumption and mix	Preparers: DR was never calculated before and may not be relevant for certain sectors such as R&D. Challenging and costly due to data availability issues. Users: Majority agree datapoints needed. Add estimation models tailored to sectors and geographies. Suggestion to simplify by keeping only SFDR	Preparers: 1. Limit requirement to renewable sources (challenge to disclose consumption from both nuclear sources and renewable sources). 2. Simplify and harmonize across environmental topics (45 out of 83 ARs refer to climate).	Deletion of disaggregation including non-renewable sources and nuclear sources. Disclosure remains on total energy consumption in MWh related to own operations and share of % from renewable sources. Deletion of disclosure on energy production, both non-renewable and renewable.

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>and the ones related to energy consumption.</p> <p>Other: Feasible/ possible to prepare. Further guidance needed.</p>	<p>Users: clarify - It will be necessary to identify possible steps for decarbonization.</p> <p>Other: Limit the number of additional datapoints in the ARs (45 out of 83 ARs refer to climate). Supported by National or European authority/Standard Setter Comment Letter</p>	
<p>Section 4</p> <p>E1-2– Gross Scopes 1, 2, 3 and Total GHG emissions</p>	<p>Preparers: challenging to calculate as there is lack of (high quality) information, especially on value chain.</p> <p>Users: keep but suggest aligning with SFDR for Scopes 1/2/3, along with a phase-in. One suggested only keeping Scope 1 &amp; 2.</p> <p>Other: Highly challenging and costly. Further guidance needed.</p>	<p>Preparers: 1. clarifications needed on EU ETS and regulated sectors, consolidating emissions (operational vs. financial control), reporting emissions from leased assets, joint arrangements and associates that are not in the value chain and Scope 3</p> <p>Proposal: Scope 3 emissions on voluntary basis (difficulty in acquiring data from partners); too high expectations for Scope 1 and 3.</p> <p>methodological issue in meeting GHG Protocol requirements if an LSME is at the same time a parent of a small or medium-sized group (so having</p>	<p>Simplification of datapoints through deletion of market-based method for total emissions.</p> <p>To disclose location-based scope 2 emissions, and if applicable the market-based scope 2 emissions.</p> <p>Scope 3 emissions per significant scope 3 category requested only for undertakings in HCIS.</p> <p>Reference to possible use of calculators and tools in AR 18.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<p>subsidiaries). This issue should be considered when mandating on listed SMEs the obligation to meet the GHG Protocol requirements.</p> <p>Industry Association supports stronger requirements to ensure SFDR/Benchmarks Regulation/Pillar 3 data points and data points on key climate metrics such as GHG emission scopes 1, 2 and 3 are effectively disclosed by companies.</p> <p>Users: majority agreed</p> <p>Users noted importance of GHG emissions information for business partners and decarbonization reasons.</p> <p>PHASE-IN: extend Scope 3 emissions transition period to 5 years (particularly complex for value chain related total emissions).</p> <p>Other: majority agreed but left detailed comments per paragraph (Scope 3 flexibilities for LSMEs / more</p>	

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		guidance / voluntary to use market based methods)	
<p>Section 4</p> <p>GHG Intensity based on net revenue</p>	<p>Preparers: challenging to calculate as there is lack of (high quality) information, especially on value chain</p> <p>Users: majority agreed. keep but suggest aligning with SFDR for Scopes 1/2/3, along with a phase-in. Or only keeping Scope 1 &amp; 2. Further guidance needed.</p> <p>Other: Highly challenging and costly. Further guidance needed.</p>	<p>Preparers: majority agreed.</p> <p>Suggestions:</p> <ul style="list-style-type: none"> <li>- either as voluntary or not applicable to LSMEs.</li> <li>- reduce granularity (e.g., considering that green certificates from the energy providers may not have been received until the report publication).</li> <li>- allow SNCI the possibility to define a denominator (sales is not suitable).</li> <li>- give a 3 year phase in</li> </ul> <p>Users: all agreed</p> <p>Suggestions: - give a phase in as this metric will not be available until Scope 3 emissions are included in total GHG emissions.</p> <p>clearer guidance on how the calculation/reconciliation will be performed, with examples.</p> <p>Other: Most agreed</p>	<p>Previous paragraphs 22 and 23 moved to AR 37 and 38 respectively.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<p>Suggestions:</p> <p>allow SNCI the possibility to define own denominator (Net-Turnover is not suitable) until an industry standard is been issued.</p> <p>delete §21, to be calculated directly by FMPs as the denominator and nominator will be available. Reasons: technical reasons of KPI; delete AR 17 to AR 18.</p> <p>delete or defer §22 (reconciliations with financial statements).</p>	
<p>Section 4</p> <p>E1-3 – GHG removals and GHG mitigation projects financed</p>	<p>Preparers: challenging to calculate as there is lack of (high quality) information, especially on value chain.</p>	<p>Preparers: majority agreed.</p> <p>Suggestion: Further simplifications should be considered.</p> <p>Users: most agreed</p>	<p>Merged paragraphs to simplify where possible and E1-3 paragraph 15 has been clarified as voluntary. Paragraph on GHG neutrality claims (E1-3 paragraph 16) from ‘shall’ to ‘may’.</p> <p>Deletion of GHG removals in upstream and downstream VC.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
through carbon credits	<p>Users: The design of carbon offsetting projects should be validated with a DR that mentions the use of several standards and mechanisms. This DR should always be separate to GHG totals.</p> <p>Other: Give software/tool to calculate. Lack of information on the value chain.</p>	<p>Suggestions: removals and carbon credits should always be reported separately from the total GHG amounts.</p> <p>Other: most agreed</p> <p>Suggestions: simplify and turn to voluntary</p>	<p>Calculation guidance on carbon credits simplified.</p>
Carbon pricing	NA	NA	Topic deleted for simplification purposes
<p>Section 4</p> <p>E1-4 – Anticipated financial effects from material physical and transition risks and potential climate related opportunities</p>	<p>Preparers: more guidance and software/tool to calculate, especially on scenario development.</p> <p>Users: Should only be voluntary and if the LSME identifies negative financial effects due to physical and transition risks.</p> <p>Other: Highly challenging and costly. Further guidance needed.</p>	<p>Preparers: Some agreed</p> <p>Suggestions:</p> <ul style="list-style-type: none"> <li>- Align with financial disclosures</li> <li>- The company should report only if it can be done with reasonable effort</li> <li>- More guidance should be provided</li> <li>- Remove “before considering climate actions”</li> </ul> <p>Users: all agreed</p>	<p>Merged with E2, E3, E4 and E5 DRs on the topic in new DR E6, including brief description of risk.</p> <p>Aligned with VSME to include insurance coverages of significant assets; energy efficiency classes of building portfolio; and total vehicle fleet/types, by ZEV/ICE/hybrid/plug-ins, and per EURO standard.</p>



Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<p>Suggestions:</p> <ul style="list-style-type: none"> <li>- Voluntary and only if the LSME confirms the existence of negative effects from physical and transition risks</li> <li>- Alternative: keep reporting on financial effects of physical risks mandatory (required by EBA Pillar 3 Template 5); and require financial effects of transitional risks only if the undertaking discloses that it has a transition plan (avoids LSMEs the spending of additional resources to perform climate scenarios).</li> </ul> <p>Other: most agreed</p> <p>Suggestions: the DR needs to be simplified</p>	
<p>Section 4 E2-1– Pollution of air, water and soil</p>	<p>Preparers: data availability issues for this DR. Users: Suggestion to use sector and geography-tailored</p>	<p>Preparers: majority agreed Suggestions: clarifications and adjustments to inferior methodology needed</p>	<p>Previous sections E2-1 (pollution of air, water and soil) and E2-2 (substances of concern and substances of very high concern, i.e. 'SoC' and SVHC) are now merged. Objective and bolded paragraph now streamlined.</p>

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	<p>estimation models that require minimum input information.</p> <p>Other: Include more guidance, including precise reporting definitions, thresholds and examples.</p>	<p>Users: all agreed</p> <p>Suggestions: guidance on best practice (where not mandated in the undertaking's jurisdiction) for measuring and disclosing each pollutant emitted to air, water and soil.</p> <p>Other: majority agreed</p> <p>Suggestion: Clarifications in AR needed for better guidance</p>	<p>E-PRTR &amp; IED references updated.</p> <p>For Soc and SVHC, removed split by main hazard class, keeping 2 datapoints (volumes in terms of what is generated or used as input and what is output as emissions, products or services).</p> <p>Contextual information related to metrics now harmonized across E topics in new AR.</p> <p>AR section now aligned with VSME.</p> <p>Included guidance on pollutants and substances in separate guidance document.</p> <p>Created guidance on microplastics in separate guidance document.</p>
<p>E3-1 – Water consumption</p>	<p>Preparers: highly challenging</p> <p>Users: Keep this DR only for water-intensive specific sectors where there is water consumption, not only water usage and give more guidance for water-intensive sectors.</p> <p>Other: Include more guidance, including precise reporting definitions, thresholds and examples.</p>	<p>Preparers: majority agreed</p> <p>Suggestions: water intensity per revenue may not suit to all industries / clarification needed on definitions of water consumption and turnover / guidance and examples for water intense areas needed / allow different denominators</p> <p>Users: Most agreed</p>	<p>Changed from ‘shall’ to ‘may’ metrics on and moved to AR: water recycled and reused (AR 49), water stored and changes in storage (AR 49), water intensity (DR 22).</p> <p>Made water consumption ‘shall, if applicable’, with AR 48 explaining applicability. Added water withdrawal as ‘may’ (DR 21).</p> <p>Paragraph on use of different denominators to calculate water intensity deleted and rephrased now as AR to be sector-agnostic and align with set 1 (AR 50).</p> <p>Clarified concepts and added examples and references in separate guidance. Added specific material on water</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<p>Suggestions: the DR should apply in water intensive sectors and give guidance for those</p> <p>Other: Most agreed</p> <p>Suggestions: water intensity per revenue may not suit to all industries / clarification needed on definitions of water consumption and turnover / guidance and examples for water intense areas needed / allow different denominators</p>	<p>withdrawal for shared facilities. Added EEA WEI+ map/dataset as alternative reference to WRI Aqueduct for areas at high water stress (still though under discussion with EEA).</p>
<p>E4-1 – Impact Metrics related to Biodiversity and Ecosystems Change</p>	<p>Preparers: Highly challenging. External consultants needed. Include more guidance including calculation support and templates.</p> <p>Users: Include in guidance definition and list of global sensitive biodiversity areas.</p> <p>Other: The value chain coverage should be better clarified (own</p>	<p>Preparers: some agreed</p> <p>Suggestions:</p> <p>-GUIDANCE on calculation data, measurement of biodiversity footprint (currently no established metrics).</p> <p>-value chain scope is too complex; consider further overall simplification.</p>	<p>EMAS-aligned land-use change metrics moved from AR to DR / main text, aligning with VSME. Paragraph with reference to additional set 1 metrics on land-use/freshwater-use/sea-use change now streamlined. A table that can be used for information on land-use added to the ARs.</p>

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	<p>operations vs operational control).</p>	<p>Users: majority agreed / suggestion to add definition or provision of a global list of biodiversity-sensitive areas.</p> <p>Other: majority agreed</p> <p>Suggestions:</p> <ul style="list-style-type: none"> <li>- definition of "sites managed" and measurement of area (e.g. outdoor areas).</li> <li>- harmonize methodological requirements across environmental matters (AR 5).</li> <li>- delete LCA approach (§52), only keep what is under SMEs' direct control.</li> <li>- ensure same granularity on biodiversity impact metrics as ESRS E4-5.</li> <li>- include a metric on the type of ecosystem where a site is located (and potentially HCV status).</li> </ul>	

Revised LSME session – Cover Note

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<p>- add request for details on volumes and type of commodity procured from ecosystems, and commodity source to production unit level (if feasible, otherwise subnational area).</p> <p>add information on type of monitoring system used; include deforestation.</p>	
			<p>Paragraphs on Life Cycle Assessment in main text and AR deleted and moved to separate guidance document, reference to IG2 added there.</p>
			<p>Paragraph on Invasive Alien Species deleted and moved to separate guidance document.</p>
			<p>Paragraphs on Methodology and Contextual Information deleted and moved to separate guidance document. (A consolidated AR on contextual information in relation to metrics added covering all E standards.)</p>
			<p>The definition of managed sites deleted and moved to separate guidance document.</p>
			<p>Paragraph on frameworks to identify protected areas added to separate guidance document (aligned with VSME).</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
E5-1 Resource inflows	<p>Users: Use sector and geography-tailored estimation models that require minimum input information.</p> <p>Other: More guidance is needed including definitions, calculation support and templates.</p>	<p>Preparers: some agreed</p> <p>Suggestions: Add definitions (e.g., value chain) and calculation rules and simplify to avoid companies opting out.</p> <p>Users: All agreed</p> <p>Other: Most agreed</p> <p>Suggestions:</p> <ul style="list-style-type: none"> <li>- Reinforce by adding requirement on volumes or weights (may be estimated through proxies) of materials used that generate material impacts.</li> <li>- refer to upstream value chain.</li> <li>- Define biological</li> </ul> <p>Simplify AR</p>	<p>DRs simplified by moving of the explanations on percentage-based disclosures on material expenditures, sustainability-certified biological materials, and secondary material, as well as detailed expenditure and certification schemes information to the LSME Guidance Definition of 'biological materials' and ratio calculation of specific resource inflows added to AR.</p>
E5-2 Resource outflows	<p>Users: only keep total waste generated and add the type of waste and the way it is managed.</p>	<p>Preparers: some agreed</p> <p>Suggestions: Add definitions (e.g., value chain) and calculation rules and simplify to avoid companies opting out.</p>	<p>Section on products and materials deleted to align with VSME.</p> <p>Waste disclosure simplified to focus on total annual waste generation, broken down by type (non-hazardous and hazardous), as well as the total annual waste diverted to recycling or reuse, to align with VSME.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>Other: More guidance needed including definitions, calculation support and templates.</p>	<p>Users: All agreed</p> <p>Other: Most agreed</p> <p>Suggestions:</p> <ul style="list-style-type: none"> <li>- move §62-63 (products and materials) to ARs on an optional basis (requirements closer to opportunities than to negative impacts).</li> <li>- delete §67 (always true for metrics) or move to ARs and harmonize across environmental metrics (no need to repeat in all DRs).</li> </ul> <p>Include definitions (e.g., value chain) and calculation rules.</p>	<p>Removed AR on products and materials, and added additional ARs on waste (on non-hazardous and hazardous (including radioactive waste)). Additional guiding examples added to separate guidance document.</p>
<p>E6 – Anticipated financial effects from material environmental-related matters other than climate</p>	<p>Preparers: data collection challenge: Materiality is challenging for topics not related to climate.</p> <p>Users: Suggested that the information can indeed be useful but practically burdensome for LSMEs.</p>	<p>Preparers: some agreed</p> <p>Suggestions:</p> <ol style="list-style-type: none"> <li>1. Need for information to be completed by reference to financial disclosures to avoid discrepancies.</li> <li>2. Need for further simplifications to avoid companies opting out.</li> </ol>	<p>Now merged with E1-4; content across all environmental topics deleted or streamlined.</p> <p>Moved extra AFE information from SBM-3 to E6 ARs; removed AFE from SBM-3 Section 2.</p> <p>Objective and bolded paragraphs are now streamlined.</p> <p>Paragraph on insurance coverage edited to address environmental risks beyond climate-risks only; paragraph on</p>

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Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>Other: More guidance including definitions, calculation support and templates is needed.</p> <p>This DR comes with data availability issues which poses challenges to SNCIs.</p>	<p>Users: all agreed</p> <p>Other: Majority agreed</p> <p>Suggestions:</p> <ul style="list-style-type: none"> <li>- add positive financial impact on society and from society to company finances.</li> <li>- only apply to climate (more mature topic), delete for other environmental topics</li> </ul> <p>clarify or provide examples from the SNCI viewpoint on possible anticipated financial effects</p>	<p>description of physical and transition risks across all environmental topics added.</p> <p>Creation of guidance on physical and transition risks for all environmental topics in separate guidance document.</p>
<p>S1, S2, S3, S4 related to IR-3 (Policies and actions in relation to sustainability matters)</p>			<p>Made extensive editorial changes by merging text and eliminating redundancies as well as numerous improvements of individual paragraphs. In many cases, the ARs that apply to PAT disclosures are entirely or largely identical for all four social stakeholder groups. Where that was the case we merged them into one as much as possible. In some cases, such as the guidance for disclosures about engagement processes, this has required creating a section for ‘general guidance’ and sections with stakeholder-specific guidance.</p>



Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
			<p>Deleted AR 38 (suggestion to provide examples from current reporting period to illustrate how the business takes the perspective of workers into account) because it is equivalent to AR 36. The same change applies to the other three stakeholders, too. Deleted optional disclosure ‘whether and how the company assesses that its own workforce are aware and trust grievance channels’ from AR 43 because it is redundant. The same change applies to the other three stakeholders.</p> <p>Deleted AR 42(b): mandatory information about available grievance channels in case the company has processes for remediating negative impacts. (This deletion also applies to the other three stakeholders.)</p> <p>Deleted AR 43, which included voluntary disclosure about how the company checks whether workers are aware of grievance channels and a mandatory disclosure related to whistleblower protection/protection against retaliation for individuals who use grievance channels. (This deletion also applies to the other three stakeholders.)</p> <p>Deleted AR 52(b): mandatory disclosure of processes through which company identifies actions it needs to take in response to negative impacts on its workforce. (This deletion also applies to the other three stakeholders.)</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
			<p>Made AR 71 voluntary: Disclosure of how the company takes action to avoid negative impacts on value chain workers. (Made the same change to corresponding disclosure for affected communities and consumers; for own workforce it was already voluntary.)</p> <p>Deleted AR 72: requirement to disclose any policies for preventing and addressing impacts on indigenous peoples.</p> <p>Deleted AR 80: optional explanation about how the company ensures respect of indigenous peoples’ right to free, prior and informed consent) because the same thing is mentioned in two other ARs.</p>
S1, S2, S3, S4 related to IR-4 (Targets in relation to sustainability matters)			Merged the four separate sub-sections in the application requirements to IR-4 into one.
S2, S3, S4			<p>Inserted new paragraph into ‘Objectives’ chapter of Section 3 to increase the visibility of the three social stakeholders for which there is no separate section in LSME Revised: value chain workers, affected communities and consumers. This follows concerns that were raised in public feedback.</p> <p>Deleted all materials and references related to value chain workers, affected communities and consumers from ‘Objectives’ chapter of Section 5 and corresponding ARs</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
			because Section 5 does not require any disclosures about these three stakeholder groups.
S1			Made numerous editorial improvements and deleted the first paragraph from every Disclosure Requirement because it is redundant.
S1-1 – Characteristics of the undertaking’s employees	<p>Preparers: most considered this DR “possible to prepare with some efforts”</p> <p>Preparers suggested that specific metrics like S1-1 are identified as potentially more challenging to verify due to their qualitative nature.</p> <p>Preparers agreed that clear guidance is needed on this DR.</p> <p>Users: Majority agreed</p> <p>One user suggested that ‘non-guaranteed hours’ employees are not needed, as it might be interpreted the same way as temporary employees.</p>	<p>Preparers: Most agreed</p> <p>Two preparers want more clarity on 'temporary employees'. They believe that 'temporary' and 'non-guaranteed hours employees' are different kinds of precarious employment and should be merged into one datapoint. Two others simply ask for clarification about 'temporary work'. (The table in AR 13 would have to be adjusted if the two categories were to be merged.)</p> <p>Para 11(a): One preparer took issue with the requirement to disclose the total number of employees and breakdowns by gender and country for countries where at least 10% of the company’s employees are located. It was suggested to limit the</p>	<p>Deleted paragraph 12: voluntary disclosure of the numbers of full-time/part-time employees, disaggregated by gender.</p> <p>Deleted AR 15 (option to disclose additional break-downs of information concerning the company’s employees).</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>Other: majority found this DR “feasible with available means or already prepared”</p> <p>Some respondents said that a clearer definition of 'employees' and 'own workforce' were needed.</p>	<p>breakdown only to countries in which the company has 50 or more employees and which represent at least 10% of its total number of employees.</p> <p>Users: most agreed</p> <p>One user argued that 'temporary' and 'non-guaranteed hours employees' (para 11(b)) are different kinds of precarious employment and requested deletion of non-guaranteed hours item (also suggested by One national authority)</p> <p>Other: most agreed</p>	
<p>S1-2 – Characteristics of non-employees in the undertaking’s own workforce</p>	<p>Preparers: majority agreed</p> <p>Some said that collecting data on ‘non-employees’ was very challenging for LSMEs &amp; Proxies.</p> <p>Users: majority agreed</p> <p>Some claimed that SMEs usually struggle to collect comprehensive data on non-</p>	<p>Preparers: majority agreed</p> <p>Several respondents from the preparer and 'others' side have asked for more clarity about the terms 'self-employed' and 'non-employees' and to differentiate them more clearly from, or include them in, value chain workers.</p>	<p>Following public feedback that the distinction between value chain workers and non-employees in the company’s own workforce should be clearer, we split AR 19 into two separate paragraphs and added some wording from the definition of ‘value chain workers’ in the ESRS glossary.</p>

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Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>employees, including contractors, suppliers, and temporary workers, especially if they lack direct oversight or control over these individuals.</p> <p>Other: Most agreed</p>	<p>Some industry associations noted that there could be challenging in data collection. One respondent proposed to have it as voluntary.</p> <p>Users: all agreed</p> <p>Other: majority agreed</p> <p>Out of disagreement, one national authority/standard setter suggests a different approach for this DR. It should only apply to companies with 'a significant number of non-employee workers' because this 'is a matter of business model rather than a metric'.</p>	
<p>S1-3 – Collective bargaining coverage</p>	<p>Preparers: Most found the DR feasible</p> <p>A preparer mentioned that 'collective bargaining and social dialogue' are also very challenging as there are no established processes.</p> <p>Preparers agreed that clear guidance is needed on this DR.</p>	<p>Preparers: majority agreed</p> <p>Users: Most found this DR essential</p> <p>Other: Majority agreed.</p> <p>Four respondents from the financial industry are against the deletion of the social dialogue part from this disclosure (ESRS S1-8, on which this DR is based, included datapoints like 'percentage of employees covered by</p>	<p>Deleted AR 25 (mandatory tabular reporting format for coverage rates) and replaced it with simple instruction to report in quintiles (as in VSME).</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>Users: majority agreed</p> <p>Other: majority found it feasible</p>	<p>workers' representatives'.) They argue that there are only two datapoints that are not too complex for SMEs.</p>	
<p>S1-5 – Social protection</p>	<p>Preparers: majority found this DR “possible to prepare with some efforts”.</p> <p>Users: Majority agreed that all social datapoints in the ED are needed.</p> <p>Other: all found it feasible. A comment pointed out that the national legal requirements for social protection are highly challenging.</p>	<p>Preparers: majority agreed</p> <p>Users: majority agreed</p> <p>Other (suggestions):</p> <p>The duty to disclose absence of social protection (para 30) should only be required for 'major countries' and should only apply to material situations, i.e. when a significant number of individuals are concerned.</p> <p>One respondent argued that para 31, which says that companies may also make disclosures about social protection about non-employees in its workforce, should be deleted because information about non-employee workers may be difficult to collect and legally sensitive. Alternatively, it should be moved to AR.</p>	<p>Deleted completely.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<p>One respondent suggested that para 29 should be amended to clarify whether employees need to be covered by social protection for all listed major life events (our understanding) or "any" (wording in par 29) one of them.</p>	
<p>S1-7 – Health and safety metrics</p>	<p>Preparers: most found it feasible Additional comments highlighted the restricted data collection on illness and sick day due to Data Protection laws. Users: Most agreed with necessity of DR A Rating Agency user pointed out the lack of specialized health and safety personnel or expertise to effectively monitor and report on health and safety metrics. Other: Split views. Comments made visible the challenges due to data protection laws that</p>	<p>Preparers: majority agreed with DR Users: all agreed Other: most agreed. Some considered that some datapoints from set 1(i.e., information about the extent to which own workforce is covered by the health and safety management system ) were missing and valuable and another with some fine tuning of the scope (non-employees as voluntary) and aligning the definition with GRI.</p>	<p>Moved para 38 (optional disclosure concerning non-employees) to application requirements. Deleted AR 31 (voluntary break-down of fatality data by injuries and ill health).</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>restrict the collection of detailed information on employee illnesses and sick days.</p>		
<p>S1-8 – Remuneration metrics</p>	<p>Preparers: majority found it feasible (guidance is needed)</p> <p>A preparer raised concerns about contexts for gender pay gap in not considering specific roles and responsibilities may leading to misconceptions.</p> <p>Users: majority found it necessary</p> <p>A Rating Agency user pointed out the lack of SME access to industry benchmarking/ standards for comparing remuneration metrics, making it difficult to assess the competitiveness of their compensation practices.</p> <p>Other: split views. Comments called attention to the challenges on gender pay gap, annual remuneration and data evaluation internally and</p>	<p>Preparers: majority agreed</p> <p>One SNCI sees conceptual problems with the gender pay gap. They argue that the unadjusted pay gap is not relevant because it disregards differences in tasks and job categories.</p> <p>One preparer was concerned that the annual total remuneration ratio disclosure could lead to the public identification of individuals and/or their salaries and felt that this should be voluntary.</p> <p>Users: most found it essential</p> <p>Other: majority agreed</p> <p>Three industry associations see conceptual problems with the gender pay gap. They argue that the unadjusted pay gap is not relevant because it disregards differences in tasks and job categories.</p>	<p>Added new sub-paragraph in paragraph 41 that exempts companies with fewer than 50 employees from disclosing the gender pay gap and the total remuneration ratio.</p> <p>Copied the useful and more detailed guidance in VSME for calculating average gross hourly pay into ARs.</p> <p>Made requirement to report gender pay gap data from the past two reporting periods voluntary (AR 46).</p>



Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>highlighted the issues for comparability of jobs &amp; salaries e.g. lowest wage in a bank</p>	<p>Five industry associations had concerns about data protection with regard to the annual total remuneration ratio disclosure. Some fear that this could lead to the public identification of individuals and/or their salaries.</p>	
<p>S1-10 – Diversity metrics</p>	<p>Preparers: majority found it possible to prepare with efforts                      Users: Majority indicated that this is essential                      A Rating Agency user pointed out the risk of inadequate data disclosure due to culturally conservative environments around e.g. diversity &amp; inclusion.                      Other: majority found it feasible</p>	<p>Preparers: all agreed with feasibility                      Users: all agreed its essential                      Other: majority agreed its feasible                      The disagreements related to i) the deletion of the age breakdown from set 1 (a standard-setter), ii) merging two of the set 1 disclosures (ESRS S1-9 and S1-12) rather than being separate and iii) it is considered limited in terms of vulnerable groups included.                      In addition, a standard-setter suggested to adapt the definition of top management for LSMEs but did not say how.</p>	<p>Deleted requirement to disclose gender balance at top management level in <i>absolute numbers</i>. (Paragraph 50(a); percentage disclosure remains.)                      Made AR 52 (requirement to provide contextual information related to percentage of persons with disabilities) voluntary.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
<p>Voluntary Disclosure S1-11 – Work-life balance metrics</p>	<p>Preparers: Majority found it feasible or possible to prepare with some efforts</p> <p>Users: majority agreed that the DR is needed</p> <p>A Rating Agency user highlighted the lack of formalized policies or practices to support work-life balance for employees, leading to a lack of data.</p> <p>Other: most indicated the DR is feasible</p> <p>One respondent called attention to the fact that it seems assumed that the company has knowledge of the family related circumstances when there could be data restrictions in gathering that information.</p>	<p>Preparers: majority agreed with content</p> <p>Users: most agreed with DR</p> <p>Other: majority agreed</p> <p>four respondents (banking associations and standard-setters) suggest adding other aspects of work-time balance concerning remote working options, working time accounts or the number of departures in the reporting period alongside qualitative information to give a fuller work-life balance picture.</p>	<p>Deleted completely.</p>
<p>Section 6 on Business conduct</p>			<p>No major issues compared to the rest of the sections but due to certain feedback, the Secretariat re-considered the disclosures in this section and moved those not related to metrics to section 3 to improve consistency across the topics.</p>

