

SECTION 2 General disclosures

LSME Topic / Par.		Preparers	Users	Other	VSME reference	Feasibility of VSME	Loss of information for users (Proposed action)	EFRAG Secretariat
Section 2 BP-1 General basis for preparation of the	FIELD TEST	Expressed concern in relation of VC boundaries and on the availability of VC information	na	na	na	Low	None, if the LSME will keep the information on the VC coverage including subsidiaries	Decision taken for the ED to adopt the same principles as in Set 1 with value chain coverage driven by the outcome of the materiality assessment.

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<p>sustainability statements</p>	<p>CONSULTATION</p>	<p>Most of preparers agreed.</p>	<p>Most of users agreed.</p>	<p>Most of respondents agreed.</p> <p><u>Detailed suggestions (to be discussed)</u></p> <p>One NSS underlined that LSMEs should not be required to disclose to what extent they include VC in the reporting.</p>			<p>(important considering the individual perspective)</p>	<p>SR TEG to discuss the proposal below:</p> <ul style="list-style-type: none"> • Coverage of VC only when IROs are material (unchanged); • SBM 1 and 3, IRO 1: <u>limit to direct relationships</u> • Subsidiaries always included (when material) (unchanged); • PAT, E1-1 Transition Plans and GHG removals: report what you do (if you cover in PAT indirect relationships you disclose on them) (unchanged); • GHG emission: scope 3 included (unchanged); • Substances of concern: refer to what is monitored and reported under REACH and eco-design regulation (limited to procured material); • Resource inflows: Qualitative disclosure only. Proposal to limit to direct relationships.
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								if limiting VC coverage to direct relationships (i.e. subsidiaries, employees, clients and suppliers tier 1) could reach a compromise between proportionality and the need user needs.
Section 2 BP-2 Disclosures in relation to specific circumstances	FIELD TEST	Expressed concern in relation to VC boundaries and on the availability of VC information			Par. 40 - time horizons (missing the possibility to deviate)	Low	None, if LSME will include the DR. Otherwise, there could be loss of information for users (considering also that LSME information will be audited and has to support the public interest dimension of the disclosures	Decision taken to keep the DR as in Set 1 with less granularity and simplifications. SR TEG to discuss how the chapters could be simplified without losing relevant information for users and considering the public relevance of LSME
	CONSULTATION	Need of clarification on the meaning of the terms “reasonable effort	Most of users agreed.	Most of respondents agreed. <u>Detailed suggestions (to be discussed)</u> One NSS suggested to delete par. 9b, 10 and 12b,c for proportionality	Missing requirements on VC estimation, source of estimation, changes, errors, linkages with other reg. and frameworks, incorporation by reference, phase-ins			

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Section 1 GOV-1 The role of the administrative , management	FIELD TEST	GOV-1 is identified by most of respondents as either feasible or possible to prepare with efforts	na	Two respondents suggested that some information (i.e. ex/non ex) is already available in relation to the general composition of the admin/management bodies	Par. 66 ² BP-2 Missing requirements on composition, process to oversight sustainability, dedicated controls,	Low	High risk of loss of information also considering the CSRD provisions (see par. 29b (2)(c)(i) (ii))	The final decision was to: (a) reduce the granularity and to group disclosure requirements for roles and responsibilities of governance bodies. Furthermore, for proportionality reasons and considering CSRD provisions,

² VSME paragraph 66: The undertaking shall describe its governance and responsibilities in relation to sustainability matters. If applicable, this disclosure shall cover roles and responsibilities of the highest governance body or of the individual(s) in charge of managing sustainability matters within the undertaking.

CSRD paragraph 29 (2) c (i) the role of the undertaking’s administrative, management and supervisory bodies with regard to sustainability matters, and their composition, as well as their expertise and skills in relation to fulfilling that role or the access such bodies have to such expertise and skills.

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<p>and supervisory bodies</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg);">CONSULTATION</p>	<p>A 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</p>	<p>Most users supported this DR</p>	<p>Among others, a majority agreed</p> <p><u>Detailed suggestions (to be discussed)</u></p> <p>One NSS suggested to:</p> <ul style="list-style-type: none"> - 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 - delete par 20c. because information on the body / person in charge of sustainability matters is enough 	<p>process to inform governance bodies and skills and expertise</p>			<p>the ED does not include the ‘experience relevant to the sectors, products and geographic locations of the undertaking’ (ESRS 2 par. 21 (c));</p> <p>(b) include the requirements on dedicated controls and procedures to manage sustainability impacts and risks;</p> <p>(c) include simplified requirements defined in ESRS 2 GOV-2 on how frequently the governance bodies are informed about sustainability impacts and risks and, if applicable, on the related policies, actions, targets; and</p> <p>(d) include the requirements on assessing if governance bodies have appropriate skills and expertise.</p> <p>SR TEG to discuss if the content of VSME is enough to comply with the CSRD provisions and to support the user needs. Possible simplifications are: asking information on governance composition only when such information are not already provided in another document (with the exception of EU datapoints) (perhaps this possible redundancy could be bypassed by the incorporation by reference mechanism), drop of par.</p>
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								20d because not required in CSRD.
Section 2 GOV-2 Due diligence	FIELD TEST	Most of preparers underlined the difficulties in implementing a due diligence process and the need for more guidance.		Need for more guidance				The ED include this it for the following reasons: it is linked to the materiality process/identification of impacts, and 'lack of due diligence' is included in other EU legislation (SFDR tab. 3 indicator 10). To simplify this requirement, due diligence is a 'report if you have' component. Article 19a (6) of the CSRD states that listed SMEs are required to disclose "any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts", and these elements are constitutive of a due diligence process. The ED only covers the SFDR indicator 10. As this is Table 3 (and not 1) <u>suggestion is to have it as a May.</u>
	CONSULTATION	Only some preparers agreed with this DR. A SNCI, an undertaking association, and five industry associations argued for voluntary due diligence disclosures	All users supported DR-4 on due diligence	Others: a majority agreed. <u>Detailed suggestions (to be discussed)</u> Suggestion to: - add information helping undertakings fully understand the disclosure requirement (especially the datapoint in par. 24) - one NSS suggested to delete this DR in line with the proportionality principle, as CS3D/due diligence target large undertakings only	BP-7	Low	None, if LSME will keep info on lack of due diligence (SFDR Tab. 3)	

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Section 2 SBM-1 Strategy, business model and value chain	FIELD TEST	A majority classified this DR as highly challenging and costly. They expressed also the need for additional explanation on VC boundaries and they expressed concern on the identification of the list of significant ESRS sectors (par. 28b)	Most of the users stated that all datapoints are needed with the exception of the list of significant ESRS sectors.	na	N1 BP1	High Missing linkages with material IRs and the list of ESRS sectors	Yes, as if we do not ask for list of material sectors. To compensate, include requirement to disclose the list	Start from N1 in VSME. VSME is limited to material matters and does not cover material IR. Replace in N1 point (d) description a description of the key elements of its strategy that

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CONSULTATION	A majority of preparers agreed with SBM-1.	A majority of users supported SBM-1. Need for clarification in relation to the scope of revenues from sectors such as fossil fuels and tobacco	<p>Most of the participants agreed.</p> <p><u>Detailed suggestions (to be discussed)</u></p> <p>One NSS suggested to:</p> <ul style="list-style-type: none"> - delete par. 28 a iv, no need to disclose service/products banned; too granular. Perhaps already covered by par. 28c - 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” - 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 			of NACE codes of own operations.	relate to or affect material impacts and risks. Add list of NACE codes where the company operates.

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<p>Section 2 SBM-2 Interests and views of stakeholders</p>	<p>FIELD TEST</p> <p>Most of preparers considered this DR possible to prepare with some effort or highly challenging and costly. Some mentioned that the cost and the effort to implement a stakeholders engagement process is too high and required more guidance specially to better understand the implications in the MA process</p>	<p>Most of the users stated that all datapoints are needed. 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>na</p>	<p>N4</p>	<p>High</p> <p>Missing the how outcome is taken into account by the undertaking and the linkage with MA</p>	<p>None, if LMSE will keep the description of the outcome and the linkage with MA. YES if we go for a may disclose.</p>	<p>This is as a ‘report if you have’ component, meaning that the undertaking shall disclose the required information only if it ‘engages with stakeholders’.</p> <p>Proposal to have it as MAY and replace with (Start from VSME): If the undertaking engages with stakeholders, it may disclose: (a) the categories of key stakeholders being considered; (b) a brief description of the engagement activities (c) the outcome of these activities</p>

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CONSULTATION	<p>A majority of preparers agreed with this DR. 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>All users supported this DR</p>	<p>Among others, a majority agreed.</p> <p><u>Detailed suggestions (to be discussed)</u></p> <ul style="list-style-type: none"> - one public authority suggested to add more guidance through information in AR to help listed SME undertakings to better identify whether they have to report through describing the type of engagements covered - one NSS suggested to merge §32a i, ii & iii in one datapoint - One public authority wants this disclosure to be mandatory also when a company does not do stakeholder engagement. - 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. 				<p>in terms of contribution to identified material IRs.</p>

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<p>Section 2 SBM-3 Material impacts and risks and their interaction with strategy and business model</p>	<p>FIELD TEST</p> <p>Most of preparers considered this DR possible to prepare with some effort or highly challenging and costly. respondents required more guidance and underlined the difficulties to estimate the financial implications of IRs</p>	<p>Most of the users stated that all datapoints are needed.</p> <p>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. Some expressed issues in understanding the ARs where are located EU datapoints and guidance.</p>	<p>none</p>	<p>BP 5</p> <p>Missing material impacts and risks and their interaction with strategy and business model (VSME focus is on material sustainability matters. There is a lack in terms of requirements to disclose information on the related impacts and risks. Furthermore, in VSME there are no requirements (other than anticipated financial effects related to physical risks from climate change – BP5) on current and anticipated financial</p>	<p>Low</p>	<p>None, if LSME will keep the IRs and interaction with strategy and BM and if it will keep current and anticipated financial effects related to risks</p>	<p>The disclosures requirements related to current and anticipated financial effects were debated several times, with members having split views. Some members questioned whether these requirements would be too burdensome for LSMEs, while others would like to have the same approach as set out in ESRS 2. The final decision was to keep the same approach taken in Set 1.</p> <p>Most of the respondents to the specific question related to resilience do not agree to reinsert this specific requirement.</p> <p>SR TEG to discuss the possibility to further simplify this DR considering that in order to preserve the users needs and the public</p>

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<p>CONSULTATION</p>	<p>Some called for further simplifications, arguing that the current requirements are too granular</p>	<p>A majority of users supported this DR. Suggestion to have a pre-set list of biodiversity sensitive areas and to 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><u>Detailed suggestions (to be discussed)</u></p> <p>- one investment fund suggested in relation to “Own</p>	<p>Among others, most agreed.</p> <p><u>Detailed suggestions (to be discussed)</u></p> <p>- one public authority suggested to reintroduce the resilience analysis. The disclosure on resilience could however be simplified as compared to Set 1 (for instance through only requiring a qualitative analysis to be conducted, and not a quantitative analysis), to account for the more limited capacity of the listed SME undertakings</p> <p>Implementation guidance should be developed by EFRAG targeted at SMEs.</p> <p>- one NSS suggested to delete paragraph 35 (b) and (d) (on anticipated financial effects) in line with the proportionality principle. Current effects of impacts and risks on strategy are sufficient. Future effects at strategic level should be entity-specific given the reporting complexity (and anticipated financial effects are already required for environmental/climate topics)</p>	<p>effects related to risks.</p>			<p>relevance it is important to keep the IRs and interaction with strategy and BM and current / anticipated financial effects related to risks.</p> <p>SR TEG to discuss how ARs could be simplified without losing EU datapoints and useful guidance.</p> <p>List of impacts and risks is an explicit requirement of CSRD for LSME.</p> <p>Proposal:</p> <ul style="list-style-type: none"> • Keep the requirement to disclose list of material IR. Move paragraph 35 (a) ii, iii, iv in AR “in describing IR the undertaking shall consider”. • Turn 35 (b) in a “may”. • Turn SFDR table 2 and 3 in may datapoints in AR. • Keep current financial effects • TBD: delete anticipated financial effects? Limit them to investments and disposals? Limit it to anticipated effects that derive from formal BoD decisions?
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		<p>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>- one NSS suggested to merge paragraph 35 (c) and 35 (b) for simplification. Furthermore, details of paragraph 35 (c) should be deleted for LSMEs (e.g., adjustment within the next annual reporting period to carrying amounts of assets and liabilities). - one NSS suggested to simplify ARS. In particular, ARs related to workers in the value chain, affected communities and consumer and/or end-users should be significantly summarised for LSMEs. The number of datapoints (granularity) should be reduced on the affected stakeholders outside the undertaking when disclosing on the impacts and risks.</p>				
<p>Section 2 SBM-4 Positive impacts and material opportunities</p>	<p>FIELD TEST Most of preparers considered this DR possible to prepare with some effort. Some underlined the difficulties in understanding the requirement and the need for more guidance and examples for Material opportunities and positive impacts</p>	<p>All participants agreed to have DR Material opportunities and positive impacts as a voluntary disclosure</p>	<p>na</p>	<p>na</p>	<p>Low There is only a reference in par. 61. No definition</p>	<p>None, if LSME will keep on positive impacts and opportunities</p>	<p>decision taken on positive impacts and opportunities to be disclosed on a voluntary basis because not explicitly mentioned in the CSRD for LSMEs.</p>

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	CONSULTATION	Most preparers agreed	All users supported this DR	<p>Among others, a majority agreed</p> <p><u>Detailed suggestions (to be discussed)</u></p> <p>- one public authority suggested that EFRAG considers a proportionate approach to still ensure that some information on positive aspects is required to be disclosed by listed SMEs. Similar considerations apply to the approach to the disclosure of opportunities stemming from material sustainability matters and for which EFRAG could consider at least some mandatory disclosures in relation to the identified material opportunities as part of the undertaking's materiality assessment.</p>				NO CHANGE proposed
Section 2 IR-1 Processes to identify and assess material	FIELD TEST	Most of preparers considered this DR possible to prepare with some effort. need for more guidance to standardize the process with practical examples	Most of the users stated that all datapoints are needed.	na	na	Low Missig the description of the process. VSME does not ask disclosure on IRs.	None, if LSME will keep IR-1	SR TEG to discuss how ARs could be simplified without losing EU datapoints and useful guidance.

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impacts and risks	CONSULTATION	A majority of preparers agreed with this DR. Called for additional guidance, including examples of risks and impacts in different sectors.	A majority of users supported this DR.	Among others, a majority agreed <u>Detailed suggestions (to be discussed)</u> - one NSS suggested that AR on processes to identify and assess material IROs should be merged for all environmental topics. AR 36. (a) and (b) are applicable to all environmental topics, including biodiversity and circular economy				
	FIELD TEST	Most of preparers considered this DR possible to prepare with some effort.	Most of the users stated that all datapoints are needed.	na				
Section 2 IR-2 DRs covered by the undertaking's sustainability statement	CONSULTATION	na	na	na	na	Low	None, if LSME will keep IR-2	Keep IR 2. TBD: could we delete para. 57 ³ ?
	FIELD TEST							

³ The undertaking shall provide an explanation of how it has determined the material information to be disclosed in relation to the impacts and risks it has assessed to be material, including the use of thresholds, and/or how it has implemented the criteria in Section 1 chapter 3.2 Material matters and materiality of information.

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<p>Section 3 Policies, actions and targets</p> <p>MDR-P MDR-A</p>	<p>FIELD TEST</p> <p>Most disclosures were found possible to prepare with some efforts by the majority of preparers while some/few indicated the respective DRs are highly challenging and costly (most pertinent to Policies and Actions across E1-E5 and S1-S4)</p> <p>Need for more guidance which includes explanations, and examples, especially considering the complicated language of this section. Furthermore, rised concern on the centralised ARs for PAT</p>	all disclosures needed in the ED by most users	na	<p>N3 b) Policies</p> <p>N3 c) Actions</p>	<p>Medium</p> <p>Missing - for policies most senior level in the undertaking’s organisation that is accountable for the implementati on of the policy”. Furthermore, in VSME no</p>	None, if LSME will keep the missing information	<p>SR TEG to discuss how to build on VSME keeping the missing information.</p> <p>VSME will evolve to have a list of closed questions on PAT. LSME could leverage on this new approach.</p>

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	CONSULTATION	Most preparers agreed with the content of the MDR-P and MDR-A, indicating strong support for these disclosures	Most users also showed high agreement, reflecting the alignment of these disclosures with their needs for reliable sustainability information	a majority of others agreed, with some expressing concerns, suggesting a need for addressing specific feedback from this group. Those National or European authority/ Standard Setters who disagreed suggested that adopting Modules 1, 2, and 3 of the VSME ESRS for LSME ESRS with necessary adaptations would be beneficial. Additionally, they felt that certain actions in paragraph 8 (d) to (e) were of limited relevance for LSMEs and should be removed to better align with the needs and capabilities of smaller entities. There was also a suggestion to combine plans, actions, and targets with metrics in the ESG sections to enhance coherence and usability of the standards.		obligation to state that there are not policies in place with reference to a material sustainability matter - for actions information on Opex and Capex needed to implement actions. Furthermore, in VSME no obligation to state that there are not actions in place with reference to a material sustainability matter		
Section 3 Policies, actions and targets MDR-T	FIELD TEST	Most disclosures were found possible to prepare with some efforts by the majority of preparers. Some underlined the need for more guidance which includes explanations	Users agreed with the importance of having MDR-T. Some suggested to simplify by only asking one open question: whether targets have been set, how, who was involved in setting the targets, intended outcomes to be achieved and timeframe	na	N3 (b)v and c)iv	Low Missing MDR	None, if LSME will keep MDR	Decision taken to include targets as a 'report if you have' component. This effectively means that the disclosure requirement applies when the undertaking is monitoring the effectiveness of its actions to address a material sustainability

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	CONSULTATION	Most Preparers supported the MDR-T requirements, underscoring their importance for detailed and reliable sustainability reporting	All users unanimously supported the MDR-T requirements	<p>A majority of others agreed, while some disagreed, pointing to significant concerns about the complexity and relevance of these requirements for smaller entities</p> <p><u>Detailed suggestions (to be discussed)</u></p> <ul style="list-style-type: none"> - one NSS suggested to delete points (a), (f), (g) (not needed or too granular) a) relationship of the target to the relevant policy objectives; f) methodologies and significant assumptions used to define targets (i.e. science based methodologies) g) changes in targets or underlying methodologies - one public authority suggested to add more guidance on net-zero targets 			<p>matter through measurable time-oriented targets. Targets are not explicit requirement in CSRD. However, EFRAG Secretariat is habitant to drop or turn in “may” as targets are key to assess the management of material IRs.</p> <p>SR TEG to discuss how building on VSME incorporating MDR and how to deal with the suggested additional simplifications.</p>
Section 3 PAT ARs – E, S, G	FIELD TEST	<p>Most disclosures were found possible to prepare with some efforts by the majority of preparers while some/few indicated the respective ARs are highly challenging and costly</p> <p>Centralised approach is complex and difficult</p>	Most of the users expressed support to datapoints included in ARs	none	BP module	<p>Medium</p> <p>Missing SFDR table 2 and 3</p> <p>None, if LSME will keep SFDR tab. 2 and 3</p>	Decision taken to centralised PAT topical disclosures in section 3, by distinguishing in the AR the EU Law datapoints (navigation table provided for each sustainability topic) with additional topic-specific policies and actions disclosures that are kept in the ED as a ‘shall’ and

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	<p>CONSULTATION</p> <p>majority of preparers and most users showed strong support for these policies and actions, highlighting their relevance and importance for sustainability reporting. Industry associations (as proxy for preparer) cited the complexity and practical challenges of the current LSME ESRS ED</p> <p>Centralised approach is complex and difficult for end users to understand, creating confusion about mandatory elements. Another option could be a better alignment with the Full ESRS to ensure consistency and practicality in reporting</p>	<p>users expressed concern that significant structural changes to the LSME standard would lead to confusion and reduced comparability</p>	<p>a majority agreed, but some disagreed, indicating some reservations about the complexity and applicability of these requirements for certain entities</p> <p>The main reasons for disagreement included concerns about the extensive number of Application Requirements (AR) on plans, actions, and targets (PAT), which were seen as overly complex and burdensome.</p>				<p>other disclosures which are kept as additional guidance (as a ‘may’ or as an explanation).</p> <p>SR TEG to discuss the possibility to further streamline the ARs. EFRAG Secretariat considers that to support the quality that is needed for the information to be audited, a careful analysis is required so to maintain in LSME revised the mandatory methodological guidance that would foster the necessary comparability and relevance. Missing these elements, the result could be like the current quality of reports under the NFRD. The remaining content could be moved to non-binding appendices or even issued outside the Delegated Act as IG. Alternatively, a reference to the AR of Set 1 Delegated Act could be considered.</p> <p>SFDR table 2 and 3 as “may”.</p>
<p>Section 3 AR 6 and 16 Climate transition plan</p>	<p>FIELD TEST</p>	na	na	na	BP 4	<p>Medium</p> <p>Missing the link with Capex and Opex</p> <p>None, if LSME will keep disclosure on Capex and Opex</p>	<p>Decision taken to keep transition plan as a report if you have component because it is an EU datapoint.</p> <p>SR TEG to discuss how building on VSME keeping the missing information.</p>

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	CONSULTATION	majority of preparers agreed with the approach of "report if you have"	All users agreed with the report if you have approach	majority of others agreed with the approach <u>Detailed suggestions (to be discussed)</u> - one NSS suggested to delete the reference to climate transition plan - one NGO suggested to either reintroduce Climate transition plan as Set 1 or at least parts of it such as: decarbonization levers identified and actions planned, the LSME's investments and funding in the implementation of transition plan, qualitative assessment of locked in emissions from key assets and products, explanation of how transition plan is embedded in strategy and planning progress in implementing transition plan Points 16b), c), d), h), j)				This is a VC datapoint. Intent is to avoid to the maximum extent possible any difference between VSME and LSME. TBD.
Section 3 ARs Process to engage and process to remediate	FIELD TEST	Most of preparers classified this requirements as challenging and costly	Most users supported the requirements. Some suggested to add more guidance with explanations & examples and to delete the processes for workers in the value chain as a simplification	na	na	Low	None, if LSME will keep them	SR TEG to discuss how building on VSME keeping the missing information. ARs with only guidance could be moved to non-binding appendices or even issued outside the Delegated Act as IG. Alternatively, a reference

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	CONSULTATION	majority of preparers agreed	Most of users agree	<p>116. Among others, a majority agreed, while some disagreed, indicating a need for clearer guidelines and practical approaches for implementation</p> <p><u>Detailed suggestions (to be discussed)</u></p> <p>- one NSS pointed out that the requirements are very long and detailed and included guidance that do not fit with the proportionality principle.</p>				to the AR of Set 1 Delegated Act could be considered.