

Draft Revised LSME Section 3

[quality review in progress]

Important note: The changes portrayed in this paper are intermediary versions of the Revised LSME, still subject to quality review, further streamlining of the language and verification of the approach to VC.

[draft] Revised LSME – SECTION 3 POLICIES, ACTIONS AND TARGETS

DISCLAIMER

Section 3 *Policies, actions and targets* is set out in paragraphs 1–30. The following appendices of Section 3 have the same authority as the main body of the [draft] Standard:
- *Appendix A: Application Requirements*,

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Section 3- Policies, Actions and Targets

Objective

1. This [draft] Section sets out the information required:
 - (a) in relation to policies, actions and targets to prevent, mitigate and remediate actual and potential material negative **impacts** and to address **material risks** (collectively, to 'manage material **sustainability matters**') for a material matter, either as required by Disclosure Requirements in the topical Sections of this Standard or on an entity-specific basis;
 - (b) about the undertaking's processes for engaging with **own workers**, workers in the **value chain, affected communities, consumers** and **end-users**, and their representatives on impacts if the undertaking has those processes in place; and
 - (c) about the undertaking's processes to remediate negative impacts and channels for **own workforce**, value chain workers, affected communities, consumers and end-users and to raise concerns if the undertaking has those processes in place.
2. This [draft] Section covers **impact** and risk management and policies, actions and targets areas defined in Section 1 *General requirements* of this [draft] Standard, and it is applicable in conjunction with Section 2 *General disclosures* and the topical Sections of this [draft] Standard.
3. The undertaking shall apply the requirements in this Section when it concludes that the corresponding topic is material (according to chapter 3.3 *Double materiality*, 3.4 *Impact materiality* and 3.5 *Financial materiality* of Section 1). Following the undertaking's assessment of the **materiality** of the information according to paragraph 36 of Section 1, the **sustainability statement** shall include those disclosures prescribed in this Section that are assessed to be material.
4. The requirements in this Section shall be considered when the undertaking reports on a voluntary basis on material positive **impacts** and/or **opportunities**.
5. Disclosure Requirements related to an undertaking's own workforce, workers in the value chain, affected communities and consumers and end-users are located in Appendix A of this Section. They concern policies, actions and targets that the undertaking shall disclose with regard to impacts or risks connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. Sustainability matters that relate to an undertaking's workers in the value chain, affected communities and consumers and end-users are listed in Section 1 General Requirements, Appendix A, AR 18 of this standard.

Disclosure Requirement 11 (IR-3) – Policies and actions in relation to sustainability matters

6. The objective of this Disclosure Requirement is to set the information that shall be provided when reporting on **policies** and **actions** in relation to a material matter.
7. For each material sustainability matter (topic, sub-topic and/or sub-sub-topic), the undertaking shall disclose:
 - (a) policies that it has in place to prevent, mitigate and remediate actual and potential **impacts** and to address **risks**; and

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- (b) key **actions** taken or planned to address material impacts and risks and, where applicable, to achieve the objectives of related **policies**.

The disclosure should reflect the content of the relevant policies and actions, e.g. when the undertaking has a policy at topical level, the disclosure should cover more than one sub-topic in the same policy.

- 8. When providing disclosures on **policies**, the undertaking shall include the following minimum set of information:
 - (a) a description of the key contents of the **policy**, including its general objectives, and of which material **impacts** or **risks** the policy relates to;
 - (b) a description of the scope of the policy in terms of activities, **value chain** (including relevant subsidiaries), geographies and, if relevant, affected **stakeholder groups**;
 - (c) the most senior level in the undertaking's organisation that is accountable for the implementation of the policy;
 - (d) a reference, if applicable, to the third-party standards or initiatives that the undertaking commits to respect through the implementation of the policy;
 - (e) if applicable, a description of the consideration given to the interest of key **stakeholders** in setting the policy; and
 - (f) if applicable, whether and how the undertaking makes the policy available to potentially affected stakeholders and to stakeholders who need to help implement it.
- 9. When providing disclosures on **actions**, the undertaking shall disclose the following minimum set of information:
 - (a) the list of key actions taken in the reporting year and planned for the future as well as their expected outcomes;
 - (b) the scope of the key actions (i.e., coverage in terms of activities, **value chain**, geographies and, if applicable, affected **stakeholder** groups);
 - (c) the time horizons under which the undertaking intends to complete each key action;
 - (d) if applicable, key actions taken (along with results) to provide for, cooperate in or support the provision of **remedy** for those harmed by actual material impacts; and,
 - (e) if applicable, quantitative and qualitative information regarding the progress of actions or action plans disclosed in prior periods.
- 10. Where the implementation of an action plan requires significant operational expenditures (Opex) and/or capital expenditures (Capex), the undertaking shall:
 - (a) describe the type of current and future financial and other resources allocated to the action plan, including, if applicable, the relevant terms of sustainable finance instruments such as green bonds, social bonds and green loans, the environmental or social objectives, and whether the ability to implement the **actions** or action plan depends on specific preconditions, e.g., granting of financial support or public **policy** and market developments;
 - (b) provide the amount of current financial resources and explain how they relate to the most relevant amounts presented in the financial statements; and
 - (c) provide the amount of future financial resources.

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11. When disclosing information on **policies** and **actions** in relation to a material sustainability matter, subject to paragraphs 33 and 34 of Section 1 of this [draft] Standard the undertaking shall consider the additional topical requirements set in the following table. Additional information and guidance are provided in the Application Requirements IR-3 and in the non-authoritative guidance document issued together with this [draft] Standard.
12. In particular, the table below defines disclosure requirements stemming from other EU Regulations in relation to policies and action pertaining to certain material matters (the list of sustainability topics, sub-topics and sub-sub-topics is provided in AR xx of Section 1):
13. **[TO BE DISCUSSED IN THE TABLE BELOW WHETHER TABLE 2 AND 3 INDICATORS ARE MAY OR SHALL]**

Environment				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
1	If Climate change is material, the undertaking shall disclose its transition plan for climate change mitigation , if there is one in place. In this case, the undertaking shall disclose the information required in AR 16 of this Section.	Climate change	A	Climate Law Benchmark Reg.
2	Additionally, if applicable and the undertaking has set a transition plan, it shall disclose whether or not it is excluded from the EU Paris-aligned Benchmarks.	Climate change	A	EBA Pillar 3 Benchmark Reg.
3	If Water and marine resources is material the undertaking may disclose policies in place to manage this topic including whether if it has a site(s) located in an area of high-water stress . In this case, the undertaking shall consider ESRS Set 1 E3 par. 9, 12, 13, 14 and AR 17.	Water and marine resources	P	SFDR Tab. 2 KPI 7, KPI 8 and KPI 12
4	If biodiversity and ecosystems is material the undertaking may disclose policies or practices in place to manage this topic. This may include whether they are related to sustainable land/agriculture practices or policies sustainable oceans and seas and deforestation .	Biodiversity and ecosystems	P	SFDR Tab. 2 KPI 11, KPI 12 and KPI 15

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Environment				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
	In this case, the undertaking shall consider ESRS Set 1 E4 23, 24 and AR 4.			
5	<p>If biodiversity and ecosystems is material the undertaking may disclose whether it has adopted a biodiversity and ecosystem protection policy covering operational sites owned, leased, or managed in or near a biodiversity sensitive area.</p> <p>In this case, the undertaking shall consider ESRS Set 1 E4 par. 23, 24 and AR 4.</p>	Biodiversity and ecosystems	P	SFDR Tab. 2 KPI 14.2

Social				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
8	<p>If Own workforce is material, the undertaking shall disclose:</p> <ul style="list-style-type: none"> – whether or not it has a grievance/complaints handling 	Own workforce	P	<p>SFDR Tab. 3 KPI 5</p> <p>SFDR Tab. 3 KPI 1</p>

Social				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
	<p>mechanism related to employee matters.¹</p> <p>– whether it has a workplace accident prevention policy or management system</p> <p>In this case, the undertaking shall consider ESRs Set 1 S1 par. 23 (for workplace accident prevention policy) and 32 (grievance/complaints mechanism)</p>			
9	<p>If Own workforce is material, the undertaking shall disclose whether and how its policies with regard to its own workforce are aligned with relevant internationally recognised instruments, including the UN Guiding Principles on Business and Human Rights.</p>	Own workforce	P	Benchmark Reg. section 1 and 2 of Annex 2
10	<p>If Workers in the value chain is material, the undertaking shall disclose whether and how its policies with regard to value chain workers are aligned with internationally recognised instruments relevant to value chain workers, including the United Nations (UN) Guiding Principles on Business and Human Rights. The undertaking shall also disclose the extent to which cases of non-respect of the UN Guiding Principles on Business and Human</p>	Workers in the value chain	P	SFDR Tab. 1 KPI 10 Benchmark Reg. section 1 and 2 of Annex 2

¹ The information regarding Processes to remediate negative impacts and channels for own workforce to raise concerns has to be reported only once by the undertaking.

Social				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
	Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises that involve value chain workers have been reported in its upstream and downstream value chain and, if applicable, describe the nature of these cases.			
11	<p>If Workers in the value chain is material, the undertaking shall also state whether it has a supplier code of conduct.</p> <p>In this case, the undertaking shall consider ESRS Set 1 S2 par. 18 and AR 15.</p>	Workers in the value chain	P	SFDR Tab. 3 KPI 4
12	<p>If Own workforce and / or Workers in the value chain is material, the undertaking shall state whether its policies in relation to those topics explicitly address trafficking in human beings, forced labour or compulsory labour and child labour.</p> <p>In this case, the undertaking shall consider ESRS Set 1 in S1 par. 22 and AR 13 and in S2 par. 18 and AR 15.</p>	Own workforce Workers in the value chain	P	SFDR Tab. 3 KPI 11
13	<p>If own workforce and/or workers in the value chain and/or, affected communities and/or consumers and end-users is material, the undertaking may describe its human rights policy commitments.</p>	Own workforce Workers in the value chain Affected communities	P	SFDR Tab. 3 KPI 9

Social				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
	In this case, the undertaking shall consider ESRS Set 1 in S1 par. 20 and AR 12, in S2 par. 17 and AR 14, in S3 par. 16 and AR 10, in S4 par. 16 and AR 11.	Consumers and end-users		
14	<p>If Workers in the value chain and/or affected communities and/or consumers and end-users is material, the undertaking shall disclose whether severe human rights issues and incidents connected to its upstream and downstream value chain have been reported and disclose these.</p> <p>In this case, the undertaking shall consider ESRS Set 1 in S2 par. 36, in S3 par. 36, and in S4 par. 35.</p>	<p>Workers in the value chain</p> <p>Affected communities</p> <p>Consumers and end-users</p>		SFDR Tab. 3, KPI 14

Business conduct				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
15	If business conduct is material, and if the undertaking has no policies on the protection of whistle-blowers, it shall state that it does not have such policies. It may state whether it has plans to implement them and the timetable for implementation.	Business conduct	P	SFDR Tab. 3 KPI 6

16	If business conduct is material, and if the undertaking has no policies on anti-corruption or anti-bribery consistent with the United Nations Convention against Corruption, it shall state this. It may state whether it has plans to implement them and the timetable for implementation.	Business conduct	P	SFDR Tab. 3 KPI 15
17	If business conduct is material, the undertaking shall disclose any actions taken to address breaches in procedures and standards of anti- corruption and anti- bribery .	Business conduct	A	SFDR Tab. 3 KPI 16

14. If the undertaking has not adopted **policies** and/or **actions** with reference to the specific material **sustainability matter**, it shall state this to be the case. It may also disclose the timeline for implementing them if it has such plans.

Disclosure Requirement 12 (IR-4) – Targets in relation to sustainability matters

15. The objective of this Disclosure Requirement is to provide an understanding of how the undertaking has set measurable time-oriented **targets** to monitor progresses overtime and track effectiveness of its **actions** in relation to material sustainability **impacts** and **risks** if such targets have been implemented.
16. If the undertaking has implemented targets with regard to each material sustainability matter, it shall disclose the following information:
- (a) the relationship of the target to the relevant **policy** objectives;
 - (b) the defined level of ambition (quantitative and/or qualitative, depending on the nature of the target) to be achieved, including, if applicable, whether the target is absolute or relative and in which unit it is measured;
 - (c) the scope of the target (operations, upstream and/or downstream value chain, subsidiaries, geographical boundaries or activities);
 - (d) if applicable, the baseline value and base year from which progress is measured;
 - (e) the timeframe to achieve the target;
 - (f) the methodologies and significant assumptions used to define targets, including, if applicable, the selected scenario, data sources, alignment with science-based methodologies, and national, EU or international policy goals;
 - (g) the overall progress towards the defined target.
17. When disclosing information according to paragraph 16, the undertaking shall consider publicly claimed **targets** or targets communicated to investors or lenders.
18. The **targets** may cover the undertaking's own operations and/or **value chain** (including relevant subsidiaries).
19. When disclosing information on targets in relation to a material sustainability matter (the list of sustainability topics, sub-topics and sub-sub-topics is provided in AR xx of Section 1) the undertaking shall consider the additional topical requirement set in the following table which

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stems from EU Regulations. Additional information and guidance are provided in the Application Requirements IR-4 and in the non-authoritative guidance document issued together with this [draft] Standard.

ID	Application requirement	Sustainability topic	Targets – T	EU data points
1	If Climate change is material and the undertaking has targets on GHG emission reduction , it shall disclose its GHG emission reduction targets for scope 1, 2 and 3.	Climate change	T	SFDR Tab. 2 KPI 4 Climate benchmark regulation, Art. 6

20. When disclosing the information required by paragraph 16, the undertaking shall apply the additional requirements set out in the topic-specific Application Requirements IR-4.

Appendix A: Application Requirements – Section 3 Policies, Actions and Targets

Disclosure Requirement 11 (IR-3) – Policies and actions in relation to sustainability matters

- AR 1. In disclosing information on **policies** and **actions**, the undertaking may include such a disclosure in a centralised section or in one topical section of its sustainability statement and cross-referencing to the other topical sections (specially if a single policy or the same actions address several interconnected sustainability matters) or divide and present the relevant disclosure in each sustainability topical section of the sustainability statement
- AR 2. A single policy may apply to several material sustainability matters, including matters addressed by more than one topical section of this [draft] Standard. For example, if a single policy covers both an environmental matter and a social matter, the undertaking may report on the policy in the environmental section of its sustainability statement. In this case, in the social section it may cross-reference the environmental section where the policy is reported. Equally, a policy may be reported in the social section by cross-referencing the environmental section.
- AR 3. 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 to report on.
- AR 4. If the undertaking has not formalised a policy but has implemented **actions** or defined **targets** through which the undertaking seeks to address material **impacts** and **risks**, it may disclose them as actions and/or targets.
- AR 5. As an illustration, consider the following:
- (a) if the undertaking has implemented actions in relation to its employees (i.e., to ensure **equal treatment** or a health and safety management system) but has not formalised a policy, it describes the actions undertaken to address the related material impacts and risks. Furthermore, the undertaking, if applicable, discloses which organisational level has been assigned responsibility for implementing these actions or action plans (i.e., department, management, top management, etc.), and
 - (b) if the undertaking has defined targets in relation to material impacts or risks (i.e., to reduce emissions, **water consumption**, etc.) but has not formalised a policy, it describes these targets and, if applicable, the department or person in charge of measuring and reporting on the progress achieved towards these targets.
- AR 6. Key **actions** are those actions that materially contribute to achieving the undertaking's objectives in addressing material **impacts** and **risks**. For reasons of understandability, key actions may be aggregated where appropriate.
- AR 7. Information on resource allocation to implement actions may be presented in the form of a table and broken down, across the relevant time horizons, by capital expenditure and operating expenditure, by resources applied in the current reporting year, and by the planned allocation of resources over specific time horizons.
- AR 8. With reference to paragraph 3 of this Section, and in addition to the information required for a material sustainability matter (topic, sub-topic or sub-sub-topic) the undertaking shall consider the additional topic-specific information as defined in the following paragraphs.

ENVIRONMENT

Policies and actions for climate change

- AR 9. **Policies** related to **climate change mitigation** address the management of the undertaking's **GHG emissions**, GHG removals and **transition risks** over different time horizons in its own operations and/or in the upstream and downstream **value chain** (including relevant subsidiaries).
- AR 10. **Policies** related to **climate change adaptation** address the management of the undertaking's physical climate **risks** and climate change adaptation-related **transition risks**.
- AR 11. When listing **key actions** taken in the reporting year and planned for the future, the undertaking may present the **climate change mitigation** actions by decarbonisation lever including the nature- based solutions (i.e., energy efficiency, electrification, fuel switching, use of **renewable energy**, products change, and supply-chain decarbonisation).
- AR 12. When describing the outcome of the **actions** for **climate change mitigation**, the undertaking may include the achieved and expected **GHG emission reductions**.
- AR 13. When disclosing its **climate change adaptation** and **mitigation actions**, the undertaking may relate significant monetary amounts of CapEx and OpEx that are required to implement the actions to:
- (a) the relevant line items or notes in the financial statements;
 - (b) the key performance indicators required under Commission Delegated Regulation (EU) 2020/852; and,
 - (c) if applicable, to the CapEx plan required by Commission Delegated regulation (EU) 2021/2178.
- AR 14. When disclosing information on resources, if applicable, the undertaking may only disclose the significant OpEx and CapEx amounts required for the implementation of the **actions** related to climate change, as the purpose of this information is to demonstrate the credibility of its actions rather than to reconcile the disclosed amounts to the financial statements. The disclosed CapEx and OpEx amounts may be the additions made to both tangible and intangible assets during the current financial year as well as the planned additions for future periods when the implementation of the actions is expected. The disclosed amounts may only be the incremental financial investments directly contributing to the achievement of the undertaking's **targets**.
- AR 15. The amounts of OpEx and CapEx required for the implementation of the **actions** related to climate change may be consistent with the key performance indicators (CapEx and OpEx being the key performance indicators) and, if applicable, the CapEx plan required by Commission Delegated Regulation (EU) 2021/2178. The undertaking may account for any potential discrepancies between the significant OpEx and CapEx amounts disclosed under this Standard and the key performance indicators disclosed under Commission Delegated Regulation (EU) 2021/2178 due to, for instance, the disclosure of non-eligible economic activities as defined in that delegated regulation. The undertaking may structure its actions by economic activity to compare its OpEx and CapEx and, if applicable, its OpEx and/or CapEx plans, to its Taxonomy-aligned key performance indicators.
- AR 16. If the undertaking that operates in high climate impact sectors has adopted a transition plan for climate change mitigation, it shall provide information about it, including an explanation of how its GHG emission reduction targets are compatible with the limiting of global warming to 1.5°C;
- AR 17.** For undertakings with economic activities that are covered by delegated regulations on climate adaptation or mitigation under the Taxonomy Regulation, an explanation of any

objective or plans (CapEX, CapEx plans, OpEX) that the undertaking has for aligning its economic activities (revenues, CapEX, OpEX) with the criteria established in those delegated regulations; and

AR 18. if applicable, a disclosure of significant CapEX amounts invested during the reporting period related to coal, oil and gas-related economic activities.

AR 19. In case the undertaking operates in high climate impact sectors and does not have a transition plan for climate change mitigation in place, it may indicate whether and, if so, when it will adopt such a transition plan.

Policies and actions for pollution

AR 20. When describing its policies on **pollution**, the undertaking may indicate whether and how its **policies** address the following areas where material:

- (a) mitigating negative **impacts** related to pollution of air, water and **soil**, including prevention and control;
- (b) substituting and minimising the use of **substances of concern** and phasing out **substances of very high concern**, in particular for non-essential societal use and in **consumer** products; and
- (c) avoiding **incidents** and emergency situations and, if and when they occur, controlling and limiting their impact on people and the environment.

AR 21. When describing its **policies** on **pollution**, the undertaking may consider including information on the **pollutant(s)** or **substance(s)** covered.

AR 22. When disclosing information on policies related to **pollution**, the undertaking may include contextual information on the relation between its implemented policies and how they may contribute to the EU Action Plan 'Towards a Zero Pollution for Air, Water and Soil' with, for instance, elements on

- (a) how it is or may be affected by the **targets** and measures of the EU Action Plan and the revision of existing directives (e.g., the Industrial Emissions Directive) and
- (b) how it intends to reduce its pollution footprint to contribute to these targets.

Policies and actions for water and marine resources

AR 23. When disclosing the information on **policies** related to water and **marine resources**, the undertaking may indicate, where material, whether and how its **policies** address:

- (d) water management, including:
 - i. the use and sourcing of water and marine resources in its own operations;
 - ii. water treatment as a step towards more sustainable sourcing of water; and
 - iii. the prevention and abatement of water **pollution** resulting from its activities;
- (e) product and service design in view of addressing water-related issues and the preservation of marine resources; and
- (f) the commitment to reduce material **water consumption** in **areas at water risk** in its own operations along the upstream and downstream **value chain**.

AR 24. When disclosing information on **actions** related to water and **marine resources**, the undertaking may specify actions and resources in relation to **areas at water risk**, including **areas of high-water stress**.

AR 25. In the case of collective action or action plans involving other **stakeholders**, the undertaking may provide information on those specific collective **actions** and the related involved parties.

Policies and actions for biodiversity and ecosystems

AR 26. When disclosing the information on **policies** related to **biodiversity** and **ecosystems**, the undertaking may disclose whether the policy allows the undertaking to:

- (a) avoid its negative **impacts** on **biodiversity** and **ecosystems** in its own operations and related upstream and downstream **value chain**;
- (b) reduce and minimise its negative impacts that cannot be avoided on biodiversity and ecosystems in its operations and throughout the upstream and downstream value chain;
- (c) restore and rehabilitate degraded ecosystems or restore cleared ecosystems following exposure to impacts that cannot be completely avoided and/or minimised; and
- (d) mitigate its material **biodiversity loss** drivers.

AR 27. When disclosing **policies** related to social consequences of **biodiversity** and **ecosystems**, the undertaking may notably refer to the Nagoya Protocol and to the Convention for Biological Diversity (CBD)

AR 28. When disclosing the information on **actions** related to **biodiversity** and **ecosystems**, the undertaking:

- i. shall disclose whether it used **biodiversity** offsets in its action plans and, if so, provide a description of the offsets used, including area, type, the quality criteria applied and the standards that the biodiversity offsets comply with; and
- ii. shall describe whether and how it has incorporated **nature-based solutions** into biodiversity and **ecosystems**-related actions;

AR 29. In addition, when disclosing the information on **actions** related to biodiversity and **ecosystems**, the undertaking may disclose how it has applied the mitigation hierarchy with regard to its actions (avoidance, minimisation, restoration/rehabilitation, and compensation or offsets).

AR 30. The undertaking may disclose whether it considers an “avoidance” action plan. An avoidance action plan prevents damages before they take place. An example of avoidance is altering the **biodiversity** and ecosystem footprint of a project to avoid destruction of natural **habitat** on the **site** and/or establishing set-asides where priority biodiversity values are present and will be conserved.

Policies and actions for resource use and circular economy

AR 31. When disclosing the information on **policies** related to resource use and **circular economy**, the undertaking shall indicate, where material, whether and how its policies address the following matters:

- (a) transitioning away from use of virgin resources, including relative increases in use of secondary (recycled) resources; and
- (b) sustainable sourcing and use of renewable resources.

AR 32. When disclosing the information on **policies** related to resource use and **circular economy**, the undertaking may disclose whether and how its policies address:

- (a) the **waste hierarchy**: (i) prevention; (ii) preparation for re-use; (iii) **recycling**; (iv) other **recovery**, e.g., energy recovery; and (v) disposal. In this context, **waste** treatment cannot be considered as recovery; and
- (b) the prioritisation of the avoidance or minimisation of waste (be it through re-using, repairing, refurbishing, remanufacturing and repurposing) over waste treatment strategies (recycling). The concepts of eco-design,² waste as a resource and post-**consumer** waste (at the end of a consumer-product lifecycle) should also be taken in consideration.

AR 33. When disclosing the information on **actions** related to **resource use** and **circular economy**, the undertaking may specify whether and how the actions and resources cover:

- (a) higher levels of resource efficiency in use of technical and biological materials and water, particularly in relation to critical **raw materials** and rare earths as listed in the Raw Materials Information System;
- (b) higher rates of use of secondary raw materials (recyclates);
- (c) the application of circular design, leading to increased product **durability** and optimization of use as well as higher rates of **reuse**, repair, refurbishing, remanufacturing, repurposing and **recycling**;
- (d) the application of circular business practices such as (i) value retention **actions** (maintenance, repair, refurbishing, remanufacturing, component harvesting, upgrading and reverse logistics, closed loop systems, and second-hand retailing), (ii) value maximisation actions (product-service systems, collaborative and sharing economy business models), (iii) end-of-life actions (recycling, upcycling, extended producer responsibility), and (iv) systems efficiency actions (industrial symbiosis);
- (e) actions taken to prevent **waste** generation in the undertaking's upstream and downstream **value chain**; and
- (f) the optimisation of **waste management** in line with the **waste hierarchy**.

SOCIAL

Policies related to an undertaking's own workforce, value chain workers, affected communities or consumers and end-users

AR 30. When it describes its **policies** concerning either its **own workforce, value chain workers, affected communities or consumers and end-users** the undertaking shall disclose whether it engages with them. It shall further apply the following Application Requirements:

- (a) **AR 32 to AR 34** for its own workforce;

² As established by the Directive 2009/125/EC.

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- (b) AR 34a to AR 36 for value chain workers;
- (c) AR 37 to AR 41 for affected communities;
- (d) AR 42 to AR 44 for consumers and end-users.

AR 31. If the undertaking has adopted anti-**discrimination** for its own workforce, it shall disclose this. It may also disclose which forms of discrimination are covered (racial and ethnic origin, colour, sex, sexual orientation, gender identity, disability, age, religion, political opinion, national extraction or social origin or other forms of discrimination covered by EU or national laws).

Processes for engaging with an undertaking's own workforce and workers' representatives on impacts

AR 32. If the undertaking engages with its **own workforce** it shall disclose its general processes for engaging, where relevant, with people in its own workforce and their representatives on actual and potential material **impacts** on them; and

AR 33. If the undertaking engages with its own workforce it may further disclose

- (a) the stage(s) at which engagement occurs as well as the type of engagement and frequency of the engagement;
- (b) any agreements that the undertaking has with **workers' representatives**, especially national, European or international trade unions or works councils, about the human rights of its own workforce;
- (c) how it engages with people in its workforce and **workers' representatives** on the **impacts** on its **own workforce** that may arise from reducing carbon **emissions** and transitioning to greener and climate-neutral operations, in particular restructuring, employment loss or creation, **training** and upskilling/reskilling, gender and social equity, and health and safety.

AR 34. If the undertaking does not have a general process for engaging with its **own workforce**, it may disclose by when it intends to introduce one.

Processes for engaging with value chain workers on impacts

AR 34. If the undertaking engages with **value chain workers** and their representatives it shall disclose

its general processes for engaging, where relevant, with workers in the **value chain** and their representatives on actual and potential material **impacts** on them; and

(d) AR35 If the undertaking engages with value chain workers and their representatives it may further disclose

(a) the stage(s) at which engagement occurs and the type of engagement and frequency of the engagement; and,

(b) any agreements it has with global union federations about the human rights of workers in the value chain, including their right to bargain collectively.

AR 35. If the undertaking does not have a general process for engaging with **value chain workers**, it may disclose by when it intends to introduce one.

Processes for engaging with affected communities on impacts

AR 36. If the undertaking engages with **affected communities** and their representatives it shall disclose

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its general processes for engaging, where relevant, with affected communities and their representatives on actual and potential material **impacts** on them; and

- AR 37. If the undertaking engages with **affected communities** and their representatives it may further disclose the stage(s) at which engagement occurs and the type and frequency of engagement.
- AR 38. Where **affected communities** are **indigenous peoples**, the undertaking may disclose how it takes into account and ensures respect of their rights in its **stakeholder engagement** approach, including their right to **free, prior and informed consent** with regard to their cultural, intellectual, religious and spiritual property, activities affecting the lands, territories and resources they customarily own, occupy or otherwise use, and legislative or administrative measures that affect them. It may also disclose whether and how **indigenous peoples** have been consulted on the engagement modalities, such as the agenda, nature and timing of engagement.
- AR 39. If the undertaking does not have a general process for engaging with affected communities, it may disclose by when it intends to introduce one.

Processes for engaging with consumers and end-users on impacts

- AR 40. If the undertaking engages with **consumers and end-users** it shall disclose
- its general processes for engaging, where relevant, with consumers and end-users and their representatives on actual and potential material **impacts** on them; and
- AR 41. If the undertaking engages with **consumers and end-users** and their representatives it may further disclose the stage(s) at which engagement occurs and the type and frequency of engagement.
- AR 42. If the undertaking does not have a general process for engaging with **consumers and end-users**, it may disclose by when it intends to introduce one.

General guidance for the disclosures about processes for engaging on impacts

- AR 43. When preparing the disclosures under AR 32(b), AR 33, AR 34a(b), AR 35, AR 37(b), AR 38, AR 42(b) and AR 43, the following examples may be considered:
- (a) 'stages at which engagement occurs' could mean the point in time at which the approach to mitigation is determined or when the effectiveness of mitigation is evaluated;
 - (b) 'type of engagement' could mean participation, consultation and/or information;
 - (c) 'frequency of engagement' could mean whether engagement occurs on a regular basis, e.g. quarterly or annually, or at certain points in a project or business process (for example, when harvest season begins or a new production line is opened), whether it occurs in response to legal requirements and/or in response to **stakeholder** requests and whether the result of the engagement is integrated into the undertaking's decision-making processes.
- AR 44. To illustrate how the perspectives of either its **own workforce, value chain workers, affected communities or consumers and end-users** have informed specific decisions or activities, the undertaking may provide examples from the current reporting period.

Specific guidance for the disclosures about processes for engaging with an undertaking's own workforce about impacts

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AR 45. The undertaking may disclose :

(e) how feedback is recorded and integrated into decision-making and how people in the workforce are informed of whether and how their feedback has influenced decisions;

(d) whether engagement activities take place at the organisational level or at a lower level, such as at the **site** or project level, and in the latter case how information from engagement activities is centralised;

(e) the resources (for example, financial or human resources) allocated to engagement.

AR 46. The undertaking may also disclose the following information in relation to AR 31 on discrimination:

(a) how it engages with at-risk persons or persons in vulnerable situations (for example, whether it takes specific approaches and gives special attention to potential barriers);

(b) how it takes into account potential barriers to engagement with people in its workforce (for example, language and cultural differences, gender and power imbalances, or divisions within a community or group);

(c) how it provides people in its workforce with information that is understandable and accessible through appropriate communication channels;

(d) any conflicting interests that have arisen among its workforce and how the undertaking has resolved these conflicting interests; and

(e) how it seeks to respect the human rights of all **stakeholders** engaged, for example, their rights to privacy, freedom of expression and peaceful assembly and protest.

AR 47. The undertaking may also report information about the effectiveness of processes for engaging with its **own workforce** from previous reporting periods. This applies in cases where the undertaking has assessed the effectiveness of these processes or derived lessons during the current reporting period. Processes used to track such effectiveness can include internal or external auditing or verification, impact assessments, measurement systems, **stakeholder** feedback, **grievance mechanisms**, external performance ratings and benchmarking.

Specific guidance for the disclosures about processes for engaging with consumers and end-users

AR 48. **Credible proxies** who have knowledge of the interests, experiences or perspectives of **consumers** and **end-users** could include national consumer protection bodies for some consumers.

Processes for remediating negative impacts and channels for an undertaking's own workforce, value chain workers, affected communities or consumers and end-users to raise concerns

AR 49. If the undertaking has processes for **remediating** negative **impacts** on either its **own workforce, value chain workers, affected communities or consumers and end-users** it shall disclose:

- (a) its processes for providing or contributing to **remedy** for material negative impacts on any of the aforementioned stakeholders it has caused or contributed to, including whether and how it assesses the effectiveness of remedial measures; and

AR 50. If the undertaking does not have such processes, it may disclose by when it intends to introduce them.

General guidance for the disclosures about processes for remediating negative impacts and channels for an undertaking's own workforce, value chain workers, affected communities or consumers and end-users to raise concerns'

AR 34. In fulfilling the requirements set out in AR 51 through AR 52 the undertaking may be guided by the content of the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct focused on **remediation** and **grievance mechanisms**.

AR 35. Channels for raising concerns or needs include **grievance mechanisms**, hotlines, trade unions or works councils (for **own workers** and **value chain workers** and/or their **representatives**), dialogue processes or other means through which the undertaking's **stakeholders** can raise concerns about impacts or explain needs that they would like the undertaking to address. This could include channels provided by the undertaking directly as well as any other mechanism an undertaking may use to gain insight into the management of impacts on its own workforce, **value chain** workers, **affected communities**, consumers and **end-users**, such as compliance audits. In the case of an undertaking's **own workforce**, this also includes channels set up by the companies where the undertaking's **own workforce** performs its actual work. If the undertaking relies solely on information about the existence of such channels provided by its **business relationships** to answer this requirement, it may state that.

AR 36. These channels could be provided by industry-wide initiatives in which the undertaking takes part or other third-party mechanisms, such as the ones operated by governments or NGOs. The undertaking may disclose whether they are accessible to the respective affected stakeholder group in its entirety, or to individuals or organisations that act on their behalf or are otherwise in a position to be aware of negative **impacts**.

AR 37. The undertaking may disclose the processes through which it supports or requires the availability of such channels in the workplace, in the case of its **own workforce** or **value chain workers**. In the case of **affected communities** or **consumers and end-users**, it may disclose the processes through which it supports or requires its **business relationships** to make such channels available.

AR 38. The undertaking may provide relevant and reliable data about the effectiveness of these channels from the perspective of the people concerned. Examples of such sources of information include surveys of people who have used such channels and their levels of satisfaction with the process and outcomes. In the case of **consumers and end-users**, the undertaking may disclose the number of consumer complaints received during the reporting period.

AR 39. The undertaking may disclose how it tracks and monitors the issues that are raised and addressed and how it ensures the effectiveness of the channels, including through the involvement of **stakeholders** who are intended **users**.

AR 40. When describing the effectiveness of the aforementioned channels, the undertaking may be guided by the following questions based on the 'effectiveness criteria for non-judicial **grievance mechanisms**' laid out in the UN Guiding Principles on Business and Human Rights, in particular principle 31. These apply to individual channels or to a collective system of channels.

- (a) Do the channels have legitimacy by providing appropriate accountability for their fair conduct and building stakeholder trust?
- (b) Are the channels known and accessible to **stakeholders**?
- (c) Do the channels have clear and known procedures with indicative timeframes?
- (d) Do the channels ensure reasonable access for stakeholders to sources of information, advice and expertise?
- (e) Do the channels offer transparency by providing sufficient information to complainants and, where applicable, to meet any public interest?
- (f) Do outcomes achieved through the channels accord with internationally recognised human rights?
- (g) Does the undertaking identify insights in the channels that support continuous learning for both improving the channels and preventing future **impacts**?
- (h) Does the undertaking focus on engaging in dialogue with complainants as a means to reaching agreed solutions rather than seeking to unilaterally determine the outcome?

AR 51. In relation to the protection of individuals that use mechanisms against retaliation, the undertaking may describe whether it treats grievances confidentially and with respect for the rights of privacy and data protection and whether the mechanisms can be used anonymously (for example, through representation by a third party).

Specific guidance for the disclosures about processes for remediating negative impacts and channels for affected communities to raise concerns

AR 52. When disclosing processes related to providing and enabling **remedy** for **indigenous peoples**, relevant information includes whether and how the undertaking has considered their customs, traditions, rules and legal systems.

Actions on material impacts on an undertaking's own workforce, value chain workers, affected communities or consumers and end-users

AR 41. When disclosing information on **actions** for material **impacts** related to either its **own workforce, value chain workers, affected communities or consumers and end-users** the undertaking shall describe:

- (a) actions taken, planned or underway to prevent or mitigate material negative impacts

Additional guidance for actions related to an undertaking's own workforce

AR 42. The undertaking may disclose whether and how it ensures that its own practices do not cause or contribute to material negative **impacts** on **own workforce**, including, where relevant, its practices in relation to procurement, sales and data use. It may also disclose which approach it takes when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

Additional guidance for actions related to value chain workers

AR 43. The undertaking may disclose whether and how it takes action to avoid causing or contributing to material negative **impacts** on **value chain workers** through its own practices, including, where relevant, in relation to procurement, sales and data use. It may also disclose which approach it takes when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

Additional guidance for actions related to affected communities

AR 44. The undertaking may disclose whether and how it takes action to avoid causing or contributing to material negative **impacts** on **affected communities** through its own practices, including, where relevant, in relation to planning, land acquisition and exploitation, finance, extraction or production of **raw materials**, use of **natural resources** and management of environmental impacts. It may also disclose which approach it takes when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

Additional guidance for actions related to consumers and end-users

AR 45. The undertaking may disclose whether and how it takes action to avoid causing or contributing to material negative **impacts** on **consumers** and/or **end-users** through its own practices, including, where relevant, marketing practices, sales and data use. It may also disclose which approach it takes when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

BUSINESS CONDUCT

(f)

Policies and actions for supplier relationships

- AR 46. With respect to supplier relationships, the undertaking shall disclose whether it has established a practice/procedure to monitor late payments.
- AR 47. Furthermore, with respect to supplier relationships, the undertaking may disclose information on its purchasing practice / procedure and whether it also considers ESG criteria.

The content of the EU Law Table stemming from other EU Regulations, particularly the one related to Social disclosures and ID 11 in Section 3 IR 3 may be relevant in the context of AR 117 to AR 118 as the undertaking has to state whether it has a supplier code of conduct.

Policies and actions for anti-corruption and anti-bribery

- AR 48. Disclosures may include details about the risk assessments and/or mapping as well as monitoring programmes and/or internal control procedures performed by the undertaking to detect corruption and bribery. This may include training or refer to whistleblowing systems.
- AR 49. The undertaking may present information about training on its anti-bribery and anti-corruption policies using the following table:

Anti-corruption and anti-bribery training illustrative example

During the 20XY financial year ABC provided training to its at-risk own workers in terms of its policy (see note x).. Details of its training during the year is as follows:

	Managers	Other employees
<i>Training coverage</i>		
<i>Total</i>	5	50
<i>Total receiving training</i>	3	42
<i>Total hours of training</i>	6	84
<i>Frequency</i>		
<i>How often training is required</i>	Annually	Annually

Disclosure Requirement 12 IR-4) – Targets in relation to sustainability matters

- AR 50. When disclosing **targets** related to the prevention or mitigation of environmental **impacts**, the undertaking may prioritise targets related to the reduction of the impacts in absolute terms rather than in relative terms. When targets address the prevention or mitigation of social impacts, they may be specified in terms of their effects on human rights, welfare or positive outcomes for affected **stakeholders**.
- AR 51. The information on progress made towards achieving the **targets** may be presented in a comprehensive table, including information on the baseline and target value, milestones and achieved performance over the prior periods.
- AR 52. When disclosing **targets** related to environmental matters, the undertaking shall identify those that are science-based.
- AR 53. If the undertaking has **targets**, it may disclose additional topic specific information defined in the following paragraphs.

ENVIRONMENT

Guidance / Additional information for Targets on Climate change

- AR 54. Regarding **GHG emission reduction targets** for Scope 1, 2, and 3, the undertaking may disclose:
- (a) GHG emission reduction **targets** in absolute value (either in tonnes of CO₂eq or as a percentage of the **emissions** of a base year) and, where relevant, in intensity value;
 - (b) GHG emission reduction targets for **Scope 1, 2, and 3 GHG emissions**, either separately or combined. The undertaking shall specify, in case of combined GHG emission reduction targets, which GHG emission Scopes (1, 2 and/or 3) are covered by the target;
 - (c) the current base year and baseline value of the target, and from 2030 onwards, an update of the base year for its GHG emission reduction targets after every five-year period thereafter;
 - (d) whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5°C, including information on which framework or methodology has been used to determine these targets – such as whether they are derived using a sectoral decarbonisation pathway – what the underlying climate and **policy scenarios** are and whether they have been externally assured; and
 - (e) the expected **decarbonisation levers** and their overall quantitative contributions towards achieving the GHG emission reduction targets (e.g., energy or material efficiency and consumption reduction, fuel switching, use of **renewable energy**, phase out or substitution of product and process).
- AR 55. When setting climate change science-based **targets** or disclosing them, the undertaking may consider indications contained in resources like the Science Based Targets initiative (SBTi) for Small and Medium-Sized Enterprises (SMEs) by CDP, the United Nations Global Compact, the World Resources Institute, the WWF's publications

issued by the WWF and BCG (2020) and Beyond Science-Based Targets: A Blueprint for Corporate Action on Climate and Nature.

AR 56. When disclosing information related to **GHG emission reduction targets**, the undertaking may specify the share of the target related to each respective **GHG emission Scope (1, 2 or 3)**. The undertaking may specify the method used to calculate **Scope 2 GHG emissions** included in the target (i.e., either the location-based or market-based method). If the boundary of the **GHG emission reduction target** diverges from that of the **GHG emissions**, the undertaking may disclose the respective percentages of Scope 1, 2, 3 and total GHG emissions covered by the target.

AR 57. When disclosing information on base year and baseline value:

- (a) the undertaking may briefly explain how it has ensured that the baseline value against which the progress towards the target is measured is representative of the activities covered and the influences exerted by external factors (e.g., temperature anomalies in a certain year influencing the amount of energy consumption and the related GHG emissions). This can be done by the normalisation of the baseline value, e.g., by using a baseline value that is derived from a three-year average if this increases the representativeness and allows for a more faithful representation;
- (b) the baseline value and base year shall not be changed unless significant changes in either the target or reporting boundary occur. In such a case, the undertaking may explain how the new baseline value affects the new target, its achievement and presentation of progress over time. To foster comparability, when setting new **targets** the undertaking may select a recent base year that does not precede the first reporting year of the new target period by more than three years. For example, with the target year set to 2030 and the target period to between 2025 and 2030, the base year shall be selected from the period between 2022 and 2025; and
- (c) the undertaking may disclose the progress made in meeting these targets before its current base year when presenting climate-related targets.

AR 58. The undertaking may present information during the target period with reference to a sector-specific **emission** pathway if available or else a cross-sector emission pathway compatible with limiting global warming to 1.5°C. For these purposes, the undertaking may calculate a 1.5°C aligned reference target value for Scope 1 and 2 (and, if applicable, a separate one for Scope 3) against which its own **GHG emission reduction targets** or interim **targets** in the respective Scopes can be compared.

AR 59. The reference target value may be calculated by multiplying the **GHG emissions** in the base year with either a sector-specific (sectorial decarbonisation methodology) or cross-sector (contraction methodology) **emission reduction** factor. These emission reduction factors can be derived from different sources. The undertaking should ensure that the source used is based on an emission reduction pathway compatible with limiting global warming to 1.5°C.

AR 60. The **emission reduction** factors are subject to further development. Consequently, undertakings are encouraged to only use updated publicly available information.

	2030	2050
Cross-sector (ACA) reductions pathway based	-42%	-90%

on the year 2020 as the reference year		
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Source: based on Pathways to Net-zero – SBTi Technical Summary (Version 1.0, October 2021).

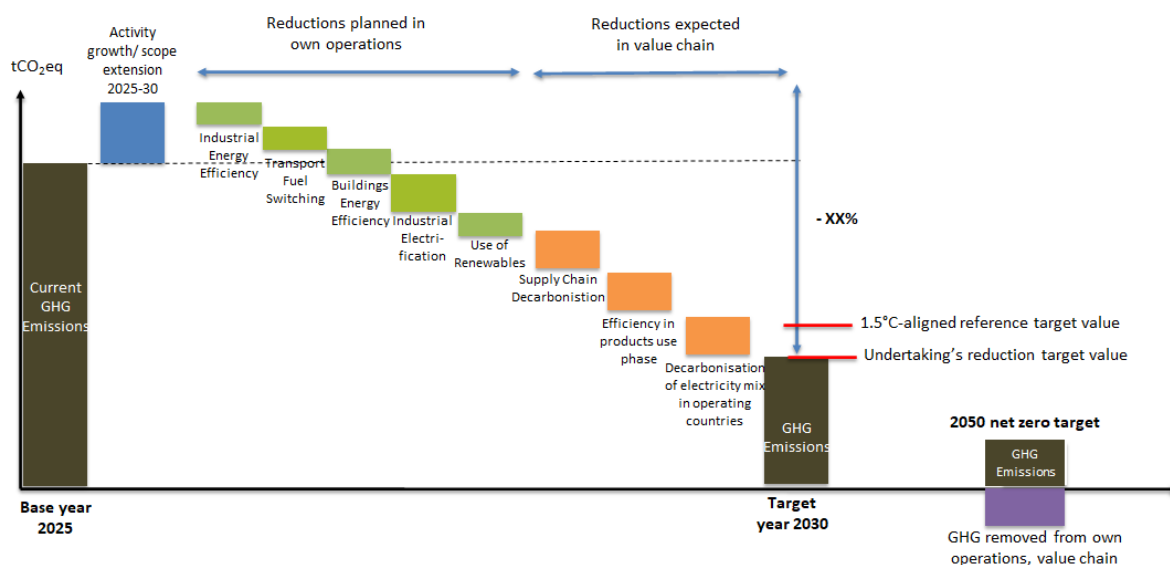
AR 61. The reference target value is dependent on the base year and baseline **emissions** of the undertaking's **GHG emission reduction target**. As a result, the reference target value for undertakings with a recent base year or from higher baseline emissions may be less challenging to achieve than it will be for undertakings that already have taken ambitious past **actions** to reduce GHG emissions. Therefore, undertakings that have in the past achieved GHG emissions reductions compatible with either a 1.5°C-aligned cross-sector or sector-specific pathway may adjust their baseline emissions accordingly to determine the reference target value. If the undertaking is adjusting the baseline emissions to determine the reference target value, it shall not consider GHG emission reductions prior to the year 2020, and it should provide appropriate evidence of its past achieved GHG emission reductions.

AR 62. When disclosing the information related to expected **decarbonisation levers**, the undertaking may explain:

- (a) by reference to its **climate change mitigation actions**, the decarbonisation levers and their estimated quantitative contributions to the achievement of its **GHG emission reduction targets** broken down by each Scope (1, 2 and 3);
- (b) whether it plans to adopt new technologies and the role of these in achieving its GHG emission reduction targets; and
- (c) whether and how it has considered a diverse range of climate **scenarios**, including at least a climate scenario compatible with limiting global warming to 1.5°C, to detect relevant environmental-, societal-, technology-, market- and **policy**-related developments and determine its decarbonisation levers.

AR 63. The undertaking may present its GHG **emission reduction targets** together with its **climate change mitigation actions** (see paragraph AR 20) in a table or graphical pathway showing developments over time. The following figure and table provide examples combining **targets** and **decarbonisation levers**:

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	Base year (e.g., 2025)	2030 target	2035 target	...	Up to 2050 target
GHG emissions (ktCO ₂ eq)	100	60	40		
Energy efficiency and consumption reduction	-	-10	-4		
Material efficiency and consumption reduction	-	-5	-		
Fuel switching	-	-2	-		
Electrification	-	-	-10		
Use of renewable energy	-	-10	-3		

Phase out or substitution of product change	-	-8	-		
Phase out or substitution of process change	-	-5	-3		
Other	-	-			

Guidance / Additional information for Targets on Pollution

AR 64. When disclosing information on **targets** that are related to **pollution**, the undertaking may specify whether and how its targets relate to the prevention and control of air **pollutants** and the respective **specific loads; emissions** to water and the respective specific loads; pollution to **soil** and the respective specific loads; **substances of concern**; and **substances of very high concern**.

AR 65. If the undertaking refers to **ecological thresholds** when setting **targets**, it may refer to the guidance provided by the Science-Based Targets Initiative for Nature (SBTN) in its interim guidance (Initial Guidance for Business, September 2020) or any other guidance with a scientifically acknowledged methodology that allows for the setting of science-based targets by identifying ecological thresholds and, if applicable, entity-specific allocations. Ecological thresholds can be local, national and/or global.

AR 66. The undertaking may specify whether the **target** addresses shortcomings related to the Substantial Contribution criteria for Pollution Prevention and Control as defined in delegated acts adopted pursuant to Article 14(2) of Regulation (EU) 2020/852. Where the Do No Significant Harm (DNSH) criteria for Pollution Prevention and Control as defined in delegated acts adopted pursuant to Article 10(3), Article 11(3), Article 12(2), Article 13(2), and Article 15(2) of Regulation (EU) 2020/852 are not met, the undertaking may specify whether the target addresses shortcomings related those DNSH criteria.

Additional guidance for targets on water and marine resources

AR 67. When disclosing information on **targets** that are related to water and **marine resources**, the undertaking may indicate whether and how its targets relate to:

- (a) the management of material **impacts** and **risks** related to **areas at water risk**, including improvement of the water quality;
- (b) the responsible management of marine resources impacts and risks, including the nature and quantity of marine resources-related commodities (such as gravels, deep-sea minerals and seafood) used by the undertaking; and
- (c) the reduction of **water consumption**, including an explanation of how those **targets** relate to areas at water risk, including areas of high water-stress.

AR 68. If the undertaking refers to **ecological thresholds** when setting **targets**, it may refer to the guidance provided by the Science-Based Targets Initiative for Nature (SBTN) in its interim guidance (Initial Guidance for Business, September 2020). It may also refer to any other guidance with a scientifically acknowledged methodology that enables the setting of science-based targets by identifying ecological thresholds and, if applicable, organisation-specific allocations. Ecological thresholds can be local, national and/or global.

AR 69. The undertaking may provide **targets** related to:

- (a) the reduction of **water withdrawals** and
- (b) the reduction of **water discharges**.

AR 70. If the undertaking provides **targets** on withdrawals, it may include **water withdrawal** from polluted **soils** and aquifers as well as water withdrawn and treated for **remediation** purposes.

AR 71. If the undertaking provides **targets** on **discharges**, it may include **water discharges** to **groundwater** such as reinjection to aquifers or water returning to a groundwater source via a soakaway or a swale.

Additional guidance for targets on biodiversity and ecosystems

AR 72. When disclosing information on **targets** that are related to **biodiversity** and **ecosystems**, the undertaking may specify whether and how these targets are related to:

- (a) contribution to direct impact drivers on biodiversity loss;
- (b) **impacts** on the state of species (i.e., on species population size, species global extinction risk, etc.);
- (c) **impacts** on the extent and condition of **ecosystems** including through **land degradation, desertification** and **soilsealing**; and
- (d) Impacts and dependencies on ecosystem services.

AR 73. When disclosing information on **targets** that are related to biodiversity and ecosystems, the undertaking may specify:

- (a) whether **ecological thresholds** and allocations of **impacts** to the undertaking were applied when setting **targets**;
- (b) whether the targets are informed by and/or are aligned with the Kunming-Montreal Global Biodiversity Framework, relevant aspects of the EU Biodiversity Strategy for 2030 and other **biodiversity** and **ecosystem**-related national **policies** and legislation;
- (c) the geographical scope of the targets if relevant;
- (d) whether or not the undertaking used biodiversity offsets; and
- (e) to which of the layers of the mitigation hierarchy the target can be allocated (i.e., avoidance, minimisation, restoration and rehabilitation, or compensation and offsets).

AR 74. The **targets** related to material **impacts** may be presented in a table as shown below:

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Type of target according to mitigation hierarchy	Baseline value and base year	Target value and geographical scope			Connected policy or legislation if relevant
		2025	2030	Up to 2050	
Avoidance					
Minimisation					
Rehabilitation and restoration					
Compensation or offsets					

The targets related to the aspects listed in paragraph AR 122 of this Section may be presented in a table as shown below:

Type of target according to sustainability matter	Baseline value and base year	Target value and geographical scope			Related policy or legislation if relevant
		2025	2030	Up to 2050	

AR 75. Measurable **targets** related to **biodiversity** and **ecosystems** may be expressed in terms of:

- (a) size and location of all **habitat** areas protected or restored, whether directly or indirectly controlled by the undertaking and whether the success of the restoration measure was or is approved by independent external professionals;
- (b) recreated surfaces (environments in which management initiatives are implemented so as to create a habitat on a **site** where it did not exist initially); or
- (c) number or percentage of projects/sites whose ecological integrity was improved (e.g., installation of fish passes, wildlife corridors, etc.).

Targets on Resource use and circular economy

AR 76. When disclosing information on **targets** that are related to resource use and **circular economy**, the undertaking may specify:

- (a) whether and how its **targets** relate to **resource inflows** and **resource outflows**, including **waste**, products and materials;

- (b) which layer of the **waste hierarchy** the target relates to; and
- (c) whether **ecological thresholds** and entity-specific allocations were taken into consideration when setting **targets**.

AR 77. If the undertaking refers to **ecological thresholds** to set **targets**, it may refer to the guidance provided by the Science-Based Targets Initiative for Nature (SBTN) in its interim guidance (Initial Guidance for Business, September 2020) or any other guidance with a scientifically acknowledged methodology that allows for the setting of science-based targets by identifying ecological thresholds and, if applicable, organisation-specific allocations. Ecological thresholds can be local, national and/or global.

AR 78. When providing information on **targets** related to resource use and **circular economy**, the undertaking may prioritise targets in absolute value.

SOCIAL

Additional guidance for targets related to own workforce, value chain workers, affected communities and consumers and end-users

AR 79. When the undertaking discloses its **targets** related to its **own workforce**, value chain workers, affected communities or consumers and end-users it may include a summarised description of any time-bound and outcome-oriented targets for:

- (i) reducing negative **impacts** on any one of the aforementioned groups of stakeholders,
- (j) advancing positive impacts on any one of the aforementioned groups of stakeholders, and/or
- (k) managing **material risks** related to any one of the aforementioned groups of stakeholders.

AR 80. The undertaking may disclose the process for setting its **targets**, including whether it engaged with any one of the aforementioned stakeholder groups directly or with their legitimate representatives or credible proxies that know their situation in:

- (a) setting any such targets,
- (b) tracking the undertaking's performance against them, and
- (c) identifying any lessons or improvements resulting from the undertaking's performance.

