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Revised LSME

Cover Note

Objective

- 1 The objective of this session is to continue the initiation of the approval of Section 1 General requirements, Section 2 General disclosures and Section 3 Policies, Actions and Targets as a recommendation to the EFRAG SRB and discuss the changes based on the feedback received on 10 October. On [12 September](#) (closed meeting), [19 September](#), and [10 October](#) the SR TEG discussed those Sections and provided feedback which the EFRAG Secretariat addressed and implemented in the respective DRs.
- 2 Regarding the topical sections 4, 5 and 6, SR TEG discussed on [7](#) and [17 October](#).
- 3 The EFRAG Secretariat additionally took into consideration the feedback received from the workshops for investors, preparers and other stakeholder groups (SR TEG members can review [here](#)) performed at the end of September.

Background of the discussions and state of play

- 4 EFRAG is currently working on the Revised LSME following the feedback received during the public consultation for a more simplified standard and according to the tentative decision taken by EFRAG SRB on [4 July 2024](#).
- 5 While the direction is to streamline the standard as much as possible compatibly with the content of the CSRD, EFRAG would like to avoid any undue loss of information for users and investors.

Changes to the draft Standard - Revised LSME

6 The following table illustrates the changes made in Sections 1, 2 and 3 (discussed in previous SR TEG 10 October) and how the EFRAG Secretariat has taken SR TEG’s feedback and comments into consideration in the draft. These changes are highlighted in **turquoise** in the agenda papers uploaded for this session. The papers additionally highlight in **grey** the references made in LSME from IG 2 and in **yellow** the content taken from VSME ED.

Topic / DR	Discussion at SR TEG 10 October	Summary of change in Revised LSME after SR TEG 10 October
Section 1 Sector connection with LSME	One SR TEG member suggested that the reference to sector ESRS should be made clearer, in a way that it explicitly mentions Sector ESRS for large undertakings. It was added by the member that not doing so may lead to confusion - Sector ESRS for large undertakings and LSME Sectors are two separate things.	Secretariat implemented this in the draft Standard.
Section 1 3.7 Level of disaggregation	Two members for the particular AR suggested to refer to Set 1 or IG and to not limit to the current example, instead, to extend and provide other examples like sector exposures and business lines. Following the debate on this point, it was agreed to extend this AR based on Set 1 by adding the example of countries and significant sites.	Better specified in main body and AR.
Section 1 Chapter Reporting undertaking and value chain	On par. 64 which clarifies the expectations on value chain: An SR TEG member suggested to move this to AR and another to make a distinction of collecting and reporting (vc does not entail the collection of data in each and every actor).	Secretariat moved the details in AR and kept same approach as in Set 1. Additionally, a better clarification was made for the collection of value chain information, as requested: <i>‘The provision (see paragraph 63) to include value chain information (including for metrics) does not require collecting information on each and every actor in the value chain...’</i>

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Section 1 Chapter 4.1 Reporting and undertaking value chain	Paragraph taken from IG 2 that was listing the areas identified with value chain implications was suggested and agreed to move to LSME IG.	Secretariat implemented this.
Section 1 Chapter 6.6 Classified and sensitive information	After SR TEG debate and EC feedback, it was decided to align this chapter with ESRS Set 1.	Restated the content of the ED which was aligned with Set 1.
Section 1 General on subsidiaries	One SR TEG member recommended a consistency check of how the draft Standard mentions subsidiaries. The approach should be universally identical across paragraphs and the examples like the one in par. 67 should not be restricting but rather clearly drafted such that subsidiaries are considered as part of the value chain	Secretariat adjusted in all section as "material subsidiaries"
Section 1 Phase-ins	Some members suggested that these additional flexibilities granted to LSMEs are disincentivising undertakings from reporting. One of the members further added that phase in on top of opt out is limiting the financial sectors – estimating data in financial sectors becomes more even difficult. Another SR TEG member pointed that the field test indicated the need for clearer phase-ins with the same year of phase in applying for each provision in Appendix C of Section 1 (i.e., 2 years	Secretariat proposal: keep the current version. Applicable to all undertakings in scope (including after opt-out). Or counter proposal: If an LSME will opt-out, then it can apply the phase-in only for the remaining years.

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	across all items of that table) and that the additional phase ins for those opting out of LSME were granted to prepare those undertakings for sustainability reporting. Decision was to stick as in Set 1.	Cons: this is only applicable for E6 (anticipated financial effect). Furthermore, to be discussed implication for phase-in related to VC (chap. 9.1)
Section 1 on impact materiality	AR 15: editorial adjustment needed on impact materiality and value chain, namely to make explicit that impacts can be connected with Tier 2 actors and beyond.	This was implemented as agreed.
Section 2 GOV-2 Due diligence	on the voluntary description of how the DD has informed the materiality assessment, several members suggested that this could be turned into a 'shall disclose' (suggested it would not be burdensome to include a few more lines of information as a description and that it can help undertakings in reporting). Secretariat also added that this description would indeed only apply to undertakings that have a DD in place and since this would be the case, these undertakings would be familiar enough to briefly describe this process. Another member counter-suggested that the voluntary regime of it in the current draft is indeed a good simplification for LSMEs and would advise keeping it as such.	Split views. Kept as a may, considering the the EU DP is only related to lack of due diligence.
Section 2 SBM-1 Strategy and business model	it was agreed to keep these two reinsertions on revenues and sectors but not refer to ESRS sectors but instead, as a compromise, users can leverage on IFRS 8 segment reporting that LSMEs should already have in their reporting obligations spectrum.	Specified in AR 6 that an undertaking may incorporate by reference information provided in its IFRS 8 segment report

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Section 2 SBM-3 Anticipated financial effects	<p>As useful guidance to LSMEs, it was suggested by an SR TEG member to draft in LSME IG a paragraph which specifies the meaning of financial position and financial performance which are indeed .two different financial instruments.</p>	<p>Draft definitions included in IG</p> <p><i>In the following subparagraphs are included an explanation of the terms “financial performance” and “financial position”:</i></p> <p><i>(a) Financial performance: evaluation of a company’s overall standing in categories such as expenses, revenue, and overall profitability, disclosed in the statement of profit or loss (which include all items of income and expense in a reporting period). It is also measured through various business-related measures that allow users to calculate exact details regarding a company’s potential effectiveness. IFRS 18 defines a set of these measures which relate to a company’s financial performance as management-defined performance measures (‘MPMs’).</i></p> <p><i>(b) Financial position: is the summary of an assets, liabilities, and equity. It is the current balances of the recorded assets, liabilities, and equity accounts of an organization. This information is recorded in the commonly named as balance sheet or statement of financial position, which is one of the financial statements..</i></p>
Section 2 SBM-3 Anticipated financial effects	<p>Another action point agreed was to keep the quantitative approach of anticipated financial effects (as in Set 1) but include another provision which grants the LSME to disclose qualitative information, when it is not possible with reasonable effort to disclose quantifications of anticipated financial effects.</p>	<p>Included paragraph on reasonable effort.</p>

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Section 2 IRO 1	The EFRAG Secretariat will seek clarification on this legal point from the European Commission.	Sent e-mail to EC. Pending
SFDR	Taking into account investors' workshops feedback (possible loss of information) and ESRS 1 par. 35, Secretariat needs to further explore if the tentative decision of the SR TEG to turn all Table 2 and Table 3 SFDR into "shall disclose" but keeping the ones related to PAT of Table 2 and Table 3 as "if applicable" ones (i.e., undertakings report these only in case they have related policies in place) truly forms a simplification for LSME. This could also be tested ad-hoc with the participants of the Revised LSME investors workshop.	To be discussed with SR TEG.
SFDR	It was also agreed that the Secretariat reviews paragraph 12 to ensure materiality is consistent with the ESRS Set 1 and Section 1 LSME.	To be discussed with SR TEG.
Section 3 Climate transition plan	One SR TEG member raised concerns that making Section 3 AR 16 exclusive to undertakings that operate in high climate impact sectors will result in confusion and additional red tape. The EFRAG Secretariat agreed to discuss the possibility of applying the datapoint to all sectors.	Kept as a may DP and deleted the limitation to high impact sectors

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Section 3 Objective	The EFRAG Secretariat agreed that Section 3 paragraph 5 should include a reference to Section 2.	Included in the current version of the Revised LSME.
Section 3 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	One SR TEG member expressed concerns that Section 3 AR 46-47 in paper 04-04 of 10 October have been trimmed too much, particularly as relates to grievance mechanisms and channels. The EFRAG Secretariat agreed to review it.	Implemented

Questions for EFRAG SR TEG

7 Does EFRAG SR TEG agree with the changes summarized in the table above?

Workshops conducted

8 EFRAG Secretariat conducted three workshops:

- (a) on the 26 of September and 4 October for users/investors of LSME sustainability statement (incl. members of BAP, IAP, CMAP and other banking/investor representatives) to discuss if the Revised LSME, in spite of the new simplifications, still meets the needs of investors, which is an overarching objective of this standard in the provision of the CSRD. This workshop follows an open call for participants.
- (b) On the 27 of September dedicated workshop for all other stakeholders interested in the Revised LSME (i.e., NGOs, civil society, national standard setters, associations and organisations, academics, consultants/auditors, etc.)
- (c) On the 27 of September dedicated workshop for preparers (listed SMEs/SNCIs/proxy preparers)

EFRAG Secretariat participated in a workshop with ESMA on 14 October to present and discuss the Revised LSME to NCAs.

CBA will be reviewed considering the changes included in the [draft] Standard (i.e. clarification of key principles, decreasing of the number of datapoints, streamlining of the content, etc). The results presented in the revised CBA will be discussed with SR TEG and SRB.

Agenda Papers

9 In addition to this cover note, agenda papers for this session are:

- (a) Agenda paper 05-02 – draft Revised LSME Section 1 General requirements (track changes compared to ESRS LSME ED) – EFRAG SR TEG 24-10-22;
- (b) Agenda paper 05-03 – draft Revised LSME Section 2 General disclosures (track changes compared to ESRS LSME ED) – EFRAG SR TEG 24-10-22;
- (c) Agenda paper 05-04 – draft Revised LSME Section 3 Policies Actions and Targets (track changes compared to ESRS LSME ED) – EFRAG SR TEG 24-10-22;
- (d) Agenda paper 05-05 – draft Revised LSME 1 General requirements (clean version) – EFRAG SR TEG 24-10-22;
- (e) Agenda paper 05-06 – draft Revised LSME Section 2 General disclosures (clean version) – EFRAG SR TEG 24-10-22; and
- (f) Agenda paper 05-07 – draft Revised LSME Section 3 Policies Actions and Targets (clean version) – EFRAG SR TEG 24-10-22.