

Draft Revised LSME Section 3 – Policies, Actions and Targets

DISCLAIMER

Text highlighted in **turquoise** illustrates the changes made after the discussion held at SR TEG on 10 of October.

The content of this section is still subject to change after SR TEG discussions.

[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 policies, actions and targets as 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. Disclosures **related** to an undertaking's own workforce, workers in the value chain, affected communities and consumers and end-users are located in **Section 2, Disclosure Requirement SBM-3 and corresponding Application Requirements and in the Disclosure Requirements IR-3 and IR-4 and their corresponding Application Requirements in this Section. They concern policies, actions and targets 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 23 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 (i.e. topic, sub-topic and/or sub-sub-topic), the undertaking shall disclose:
 - (d) policies that it has in place to prevent, mitigate and remediate actual and potential impacts and to address risks; and

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- (e) 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 may 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:
 - (f) a description of the key contents of the **policy**, including its general objectives, and of which material **impacts** or **risks** the policy relates to;
 - (g) a description of the scope of the policy (in terms of activities, **value chain**, including relevant subsidiaries, geographies and, if relevant, affected **stakeholder groups**);
 - (h) the most senior level in the undertaking's organisation that is accountable for the implementation of the policy;
 - (i) a reference to any third-party standards or initiatives to which the undertaking may have committed itself through the implementation of the policy;
 - (j) if the undertaking in defining a policy has considered stakeholders' views and interests, a description of the consideration given to the interest of these key **stakeholders** in setting this policy; and
 - (k) if the policy is made available to potentially affected stakeholders and to stakeholders who need to help implement it how the undertaking makes this policy available to those groups of stakeholders.
- 9. When providing disclosures on **actions**, the undertaking shall disclose the following minimum set of information:
 - (l) the list of key actions taken in the reporting year and planned for the future as well as their expected outcomes;
 - (m) the scope of the key actions (i.e., coverage in terms of activities, **value chain**, geographies and, if applicable, affected **stakeholder groups**);
 - (n) the time horizons under which the undertaking intends to complete each key action;
 - (o) if the undertaking has implemented them, a description of the 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,
 - (p) if the undertaking has a process in place to monitor progress of its actions or action plans disclosed in prior periods, quantitative and qualitative information regarding the progress of those actions or action plans.
- 10. Where the implementation of an action plan requires significant operational expenditures (Opex) and/or capital expenditures (Capex), the undertaking shall:
 - (q) describe the type of current and future financial and other resources allocated to the action plan, including, if the action plan has been financed with sustainable finance instruments such as green bonds, social bonds and green loans, the relevant terms of those instruments
 - (r) provide the amount of current financial resources; and
 - (s) 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, 34 and 36 of Section 1 of this [draft] Standard additional topical requirements are included in the following table.
12. In particular, the table below defines disclosure requirements stemming from other EU Regulations in relation to policies and actions pertaining to certain material matters (the list of sustainability topics, sub-topics and sub-sub-topics is provided in AR 23 of Section 1):

[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	<p>If Climate change is material, the undertaking shall disclose its transition plan for climate change mitigation, if there is one in place.</p> <p>If the undertaking 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.</p> <p>If the undertaking has significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities¹, it shall disclose the amounts of those investments.</p>	Climate change	A	Climate Law Benchmark Reg.
2	Additionally, if 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,	Water and marine resources	P	SFDR Tab. 2 KPI 7, KPI 8 and KPI 12

¹ The CapEx amounts considered are related to the following NACE codes:

- (a) B.05 Mining of coal and lignite, B.06 Extraction of crude petroleum and natural gas (limited to crude petroleum), B.09.1 Support activities for petroleum and natural gas extraction (limited to crude petroleum),
- (b) C.19 Manufacture of coke and refined petroleum products,
- (c) D.35.1 - Electric power generation, transmission and distribution,
- (d) D.35.3 - Steam and air conditioning supply (limited to coal-fired and oil-fired power and/or heat generation),
- (e) G.46.71 Wholesale of solid, liquid and gaseous fuels and related products (limited to solid and liquid fuels).

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Environment				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
	<p>including if it has a site(s) located in an area of high-water stress.</p> <p>In disclosing this information, the undertaking shall consider ESRS Set 1 E3 par. 9, 12, 13, 14 and AR 17.</p>			
4	<p>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.</p> <p>In disclosing this information, the undertaking shall consider ESRS Set 1 E4 23, 24 and AR 4.</p>	Biodiversity and ecosystems	P	SFDR Tab. 2 KPI 11, KPI 12 and KPI 15
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 disclosing this information, the undertaking may consider ESRS Set 1 E4 par. 23, 24 and AR 4.</p>	Biodiversity and ecosystems	P	SFDR Tab. 2 KPI 14.2

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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 mechanism related to employee matters.² – whether it has a workplace accident prevention policy or management system 	Own workforce	P	<p>SFDR Tab. 3 KPI 5</p> <p>SFDR Tab. 3 KPI 1</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	<p>Benchmark Reg. section 1 and 2 of Annex 2</p>
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</p>	Workers in the value chain	P	<p>SFDR Tab. 1 KPI 10</p> <p>Benchmark Reg. section 1 and 2 of Annex 2</p>

² 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.

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Social				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
	Principles on Business and Human 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	If Workers in the value chain is material, the undertaking shall also state whether it has a supplier code of conduct.	Workers in the value chain	P	SFDR Tab. 3 KPI 4
12	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 .	Own workforce Workers in the value chain	P	SFDR Tab. 3 KPI 11
13	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. In disclosing this information, 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.	Own workforce Workers in the value chain Affected communities Consumers and end-users	P	SFDR Tab. 3 KPI 9

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Social				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
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, if applicable, disclose these.</p> <p>In disclosing this information, 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	<p>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.</p>	Business conduct	P	SFDR Tab. 3 KPI 6
16	<p>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</p>	Business conduct	P	SFDR Tab. 3 KPI 15

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	Corruption, it shall state this. It may state whether it has plans to implement them and the timetable for implementation.			
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

13. Additional information and guidance on policies and actions implemented in relation to a material sustainability matter are provided in the Application Requirements IR-3 and in the non-authoritative guidance document issued together with this [draft] Standard.
14. If the undertaking cannot disclose the information on policies and actions, because it 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;
 - (a) 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;
 - (b) the scope of the target (operations, upstream and/or downstream value chain, subsidiaries, geographical boundaries or activities);
 - (c) if the undertaking has set ,the baseline value and base year from which progress is measured, the related information;
 - (d) the timeframe to achieve the target;
 - (e) the methodologies and significant assumptions used to define targets, including, if the undertaking has used them, the selected scenario, data sources, alignment with science-based methodologies, and national, EU or international policy goals;
 - (f) 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 that the undertaking has implemented in relation to a material sustainability matter (the list of sustainability topics, sub-topics and sub-sub-topics is

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provided in AR 23 of Section 1) subject to paragraphs 33, 34 and 36 of Section 1 of this [draft] Standard additional topical requirements are included in the following table.

In particular, the table below defines disclosure requirements stemming from other EU Regulations in relation to policies and actions pertaining to certain material matters (the list of sustainability topics, sub-topics and sub-sub-topics is provided in AR 23 of Section 1).

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 benchmark regulation, Art. 6 Pillar 3

20. Additional information and guidance on targets implemented in relation to a material sustainability matter are provided in the Application Requirements IR-4 and in the non-authoritative guidance document issued together with this [draft] Standard.

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:
- (t) 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
 - (u) 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 13 of this Section, additional information and guidance on policies and actions implemented in relation to a material sustainability matter are provided in the following Application Requirements:

ENVIRONMENT

Policies and actions for climate change

- AR 9. The undertaking may explain how the **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. The undertaking may explain how the **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 shall 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 shall include the achieved and expected **GHG emission reductions**.
- AR 13. When disclosing its climate change adaptation and mitigation actions, the undertaking shall relate significant monetary amounts of CapEx and OpEx that are required to implement the actions to:
- (a) the key performance indicators required under Commission Delegated Regulation (EU) 2020/852; and,
 - (b) if applicable, to the CapEx plan required by Commission Delegated regulation (EU) 2021/2178.

In doing so, the undertaking shall consider ESRS E1 AR 20 and AR 22.

- AR 14. When disclosing its transition plan (as defined in ID 1 of paragraph 12), the undertaking is expected to provide a high-level explanation of how it will adjust its strategy and business model to ensure compatibility with the transition to a sustainable economy and with the limiting of global warming to 1.5°C in line with the Paris Agreement (or an updated international agreement on climate change) and the objective of achieving climate neutrality by 2050 with no or limited overshoot as established in Regulation (EU) 2021/1119 (European Climate Law), and where applicable, how it will adjust its exposure to coal, and oil and gas-related activities.
- AR 15. For undertakings with economic activities that are covered by delegated regulations on climate adaptation or mitigation under the Taxonomy Regulation, the undertaking may include 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.

AR 16. In case the undertaking 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 17. 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

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- (c) avoiding incidents and emergency situations and, if and when they occur, controlling and limiting their impact on people and the environment.
- AR 18. When describing its **policies** on **pollution**, the undertaking may consider including information on the **pollutant(s)** or **substance(s)** covered.
- AR 19. 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 20. When disclosing the information on **policies** related to water and **marine resources**, the undertaking may indicate, where material, whether and how its **policies** address:
- (a) 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;
 - (b) product and service design in view of addressing water-related issues and the preservation of marine resources; and
 - (c) the commitment to reduce material **water consumption** in **areas at water risk** in its own operations along the upstream and downstream **value chain**.
- AR 21. 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 22. 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 23. 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;

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- (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 24. 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 25. When disclosing the information on **actions** related to **biodiversity** and **ecosystems**, the undertaking:

- (e) may 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
- (f) may describe whether and how it has incorporated nature-based solutions into biodiversity and ecosystems-related actions.

AR 26. 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 27. 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 28. When disclosing the information on **policies** related to resource use and **circular economy**, the undertaking may indicate, where material, whether and how its policies address the following matters:

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

AR 29. When disclosing the information on **policies** related to resource use and **circular economy**, the undertaking may disclose whether and how its policies address:

- (i) 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
- (j) 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,³ waste as a resource and post-consumer waste (at the end of a consumer-product lifecycle) should also be taken in consideration.

³ As established by the Directive 2009/125/EC.

AR 30. 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 specific circular design and business practices, as well as the use of recyclates and the prevention and optimisation of waste.

SOCIAL

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

AR 31. 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;
- (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 32. If the undertaking has adopted an anti-**discrimination** policy 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 33. 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.

AR 34. whether engagement occurs directly with the undertaking's own workforce or **workers' representatives**.

AR 35. If the undertaking engages with its own workforce it may further disclose

- (e) the stage(s) at which engagement occurs as well as the type of engagement and frequency of the engagement;
- (f) 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;
- (g) 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 36. 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

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AR 37. 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.

AR 38. If the undertaking engages with value chain workers and their representatives it may further disclose:

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

(i) 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 39. 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 40. If the undertaking engages with **affected communities** and their representatives it shall disclose its general processes for engaging, where relevant, with affected communities and their representatives on actual and potential material **impacts** on them.

AR 41. Where **affected communities** are **indigenous peoples**, the undertaking shall 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 42. 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 43. 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.

AR 44. 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 45. 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.

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 46. 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 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.
- AR 47. If the undertaking has channels for either its own workforce, value chain workers, affected communities or consumers and end-users to raise their concerns and have them addressed it shall disclose them.
- AR 48. If the undertaking does not have such processes or channels, it may disclose by when it intends to introduce them.

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

- AR 49. 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 actions taken, planned or underway to prevent or mitigate material negative impacts.

BUSINESS CONDUCT

Policies and actions for supplier relationships

AR 50. With respect to supplier relationships, the undertaking shall disclose whether it has established a practice/procedure to monitor late payments.

AR 51. 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 68 to AR 69 as the undertaking has to state whether it has a supplier code of conduct.

Policies and actions for anti-corruption and anti-bribery

AR 52. If the Corruption and bribery is material and the undertaking has implemented policies / actions to manage this topic, it 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 53. 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 54. 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 55. 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 56. When disclosing **targets** related to environmental matters, the undertaking shall identify those that are science-based.
- AR 57. 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 58. Regarding **GHG emission reduction targets** for Scope 1, 2, and 3, the undertaking may disclose:
- 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;
 - 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;
 - 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;
 - 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
 - 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 59. 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.

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AR 60. 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 61. When disclosing information on base year and baseline value:

- (f) 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;
- (g) 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
- (h) the undertaking may disclose the progress made in meeting these targets before its current base year when presenting climate-related targets.

AR 62. 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 63. 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 64. 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 on the year 2020 as the reference year	-42%	-90%

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

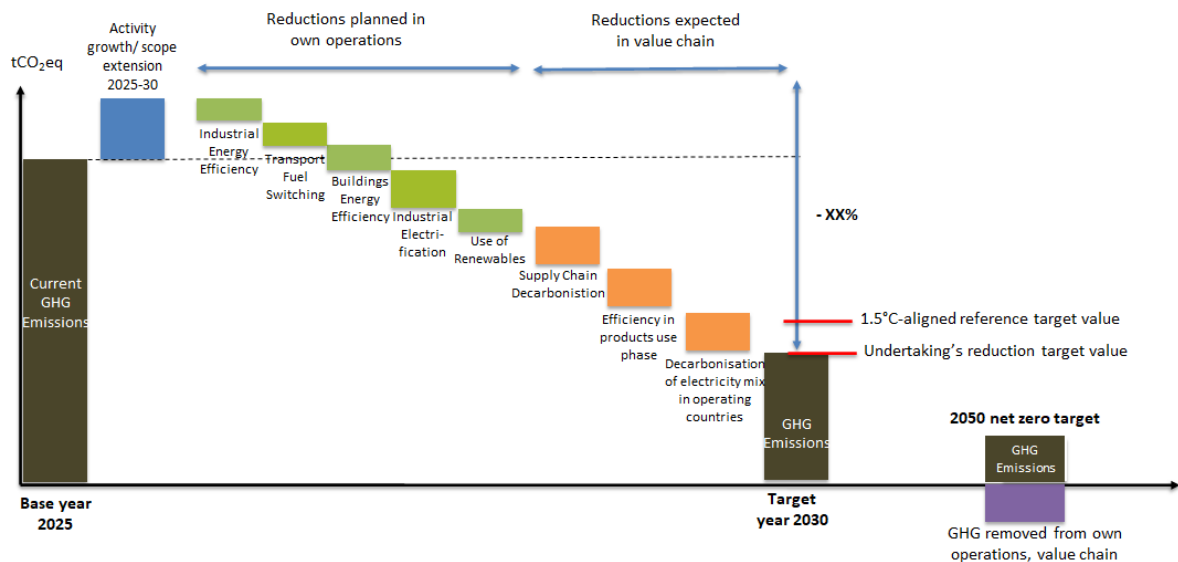
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AR 65. The reference target value is dependent on the base year and baseline **emissions** of the undertaking's **GHG emission reduction target**. As a result, the reference target value for undertakings with a recent base year or from higher baseline 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 66. When disclosing the information related to expected **decarbonisation levers**, the undertaking may explain:

- (i) 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);
- (j) whether it plans to adopt new technologies and the role of these in achieving its GHG emission reduction targets; and
- (k) 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 67. 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 68. 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**.

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AR 69. 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 70. 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 71. 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 72. 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 73. The undertaking may provide **targets** related to:

- (d) the reduction of water withdrawals and
- (e) the reduction of water discharges.

AR 74. 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 75. 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 76. 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.);

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- (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 77. 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 78. The **targets** related to material **impacts** may be presented in a table as shown below:

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					

AR 79. The targets related to the aspects listed in paragraph AR 95 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 80. Measurable **targets** related to **biodiversity** and **ecosystems** may be expressed in terms of:

- (f) 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;
- (g) 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
- (h) 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 81. 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 82. 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 83. 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 84. 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:

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- (d) reducing negative impacts on any one of the aforementioned groups of stakeholders,
- (e) advancing positive impacts on any one of the aforementioned groups of stakeholders, and/or
- (f) managing material risks related to any one of the aforementioned groups of stakeholders.

AR 85. 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.