

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

## Revised LSME

### Cover Note

#### Objective

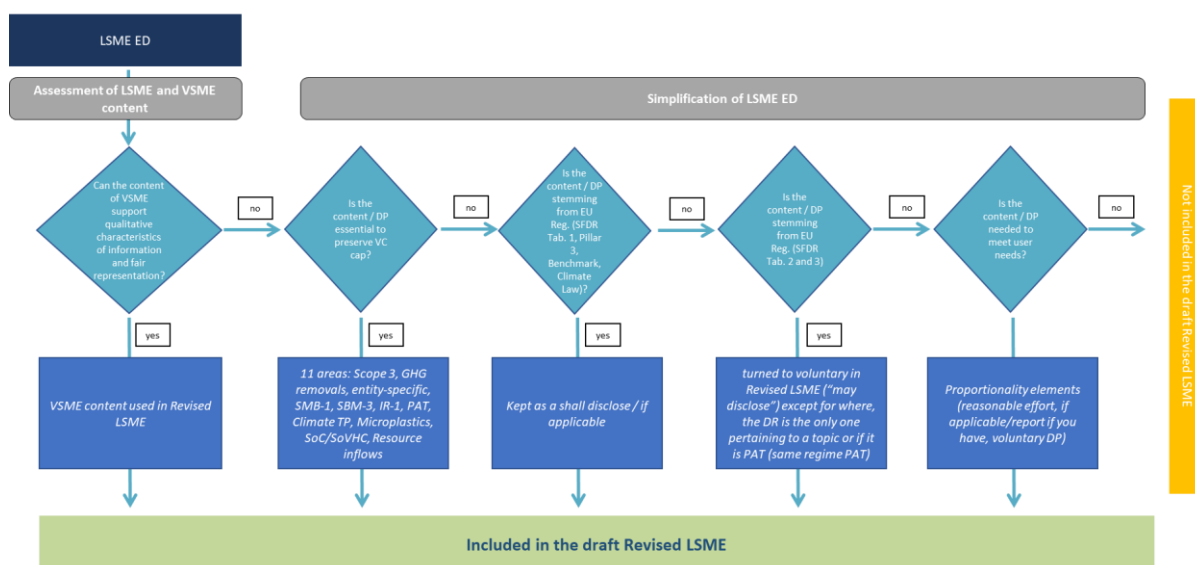
- 1 The objective of this session is to approve the Revised LSME at SR TEG as a technical recommendation to be issued by EFRAG SRB to the European Commission, subject to further editorial changes.
- 2 Following the public consultation and field test (results discussed in SR TEG [18 July](#)), the SR TEG extensively discussed the revised content of each LSME Section in September and October 2024:
  - (a) [12 September](#) (closed meeting): Section 1 General requirements;
  - (b) [19 September](#): Section 2 General disclosures and Section 3 Policies Actions and Targets;
  - (c) [7 October](#): Section 4 Environment, Section 5 Social and Section 6 Business conduct;
  - (d) [10 October](#): Section 1 General requirements, Section 2 General disclosures and Section 3 Policies Actions and Targets;
  - (e) [17 October](#): Section 4 Environment, Section 5 Social and Section 6 Business conduct;
  - (f) [22 October](#): Section 1 General requirements; and
  - (g) [24 October](#): Section 2 General disclosures, Section 3 Policies Actions and Targets Section 4 Environment, Section 5 Social and Section 6 Business conduct, the SFDR approach and a review of the voluntary datapoints in LSME.
- 3 The EFRAG Secretariat additionally took into consideration the feedback received from the workshops with 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 has prepared a 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.

### Approach to simplifications applied – Decision tree for Revised LSME

6 The Secretariat’s approach to revising the LSME after the public consultation and field test is based upon a thorough review of each DR in LSME and a series of steps which are illustrated below.



7 Following this decision tree and the SR TEG discussions, Secretariat preliminary estimated the following reductions in datapoints (subject to possible marginal revisions) compared to Set1 and the LSME ED:

	LSME ED	Revised LSME	Set 1 Shall total
ESRS 2	61	44	
Shall materiality if applicable	323	102	
voluntary	51	88	
EU Datapoints	164	145	
ESRS 2 + Shall materiality (incl. EU Law)	100	100	
ESRS 2 + Shall materiality (incl. EU Law) + other if applicable	<b>484</b>	<b>246</b>	
	535	334	<b>838</b>

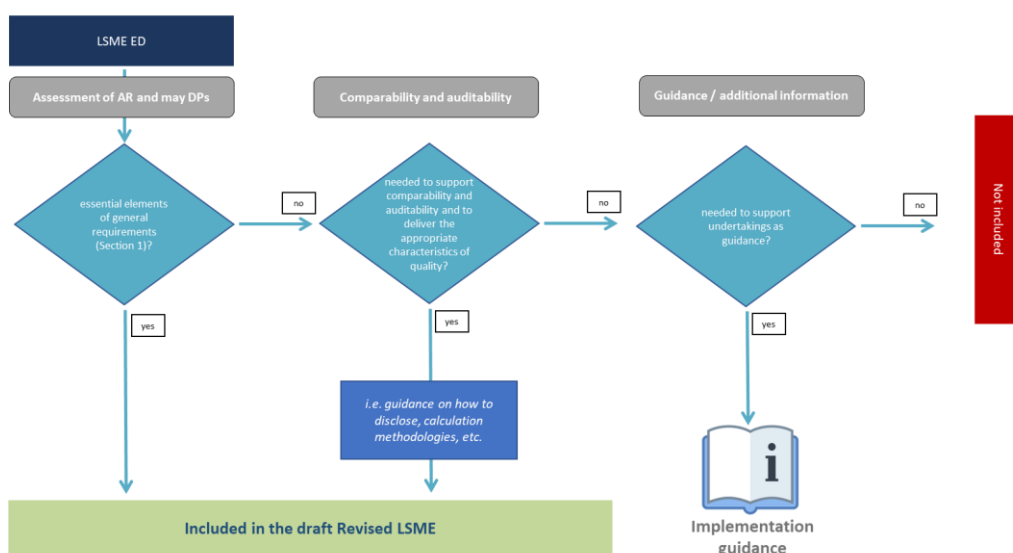
Reduction table for mandatory (excluding if applicable ones)	Reduction percentage
LSME ED compared to Set 1	<b>-42%</b>
Revised LSME compared to LSME ED	<b>-49%</b>
Revised LSME compared to Set 1	<b>-71%</b>

### Approach to LSME IG – Decision tree

8 A streamlined standard would respond to the feedback of the consultation, however LSMEs are less resourced than entities in scope of Set 1 and need guidance to reduce their dependency on consultancy guidance. The reduction of number of pages do not necessarily correspond to an advantage from this point of view. The EFRAG Secretariat proposed to move some ARs to a non-authoritative IG document. The principal rule that has been applied in this exercise is that those ARs that contain essential elements of mandatory provisions (e.g. AR to the Entity Specific concept) or that are needed to support comparability and auditability and to deliver the characteristics of quality will stay in the Delegated Act - other parts of the AR will be moved to this LSME IG. The version of the IG

uploaded for this session is still subject to editorial review to make it better accessible and usable.

- 9 For all the voluntary datapoints (“may disclose”) in Revised LSME, the proposed approach is whenever possible, to include a reference to Set 1 for guidance and specific ARs. This reduces the number of pages and contributes to streamlining the standard. At the same time the “may” datapoints in this way are standardised as the relevant guidance of Set 1 applies. To make the Standard more readable, the content of Set 1 related to those references will be included as an Appendix of the “non-binding guidance” to be issued together with LSME. This approach doesn't apply to social disclosures in Sections 2 and 3 because all the disclosures that were in the main text of ESRS S2, S3 and S4 are related to PAT and SBM-3 in Sections 2 and 3 of the LSME standard - deleting them would result in not having S2, S3 and S4 in the draft Standard. Furthermore, some other Application requirements are still in the draft and complement MDR – deleting them from the standard would hinder LSMEs’ from a simplified version of those compared to a more complexified Set 1.
- 10 The Secretariat’s approach to drafting the LSME IG is based upon a thorough review of each AR in LSME and a series of steps which are illustrated below.



**Changes to the draft Standard - Revised LSME**

11 The following table **illustrates the latest changes made in each Section (after SR TEG 24 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 24 October	Summary of change in Revised LSME after SR TEG 24 October
Section 1 Drafting conventions – reasonable effort principle	It was agreed that the approach is similar as in Set 1 but additionally the Secretariat should readjust in the related sentence of the drafting conventions in section 1 as such: <i>‘...if it does not make a material difference to the decision-making by users of the ESRS statement or the significance of the information in relation to the matter it purports to depict or explain’.</i>	Secretariat implemented this in the draft Standard.
Section 2 GOV-2 Due diligence	Despite the opposite views of having the description of how the due diligence process has informed the materiality assessment as voluntary (‘may describe’) or mandatory (‘shall describe’), SR TEG agreed to keep it as mandatory, considering that this only applies to undertakings that have a due diligence process in place.	Secretariat implemented this in the draft Standard.
Section 2 SBM-3 Anticipated financial effects	SR TEG agreed with the changes but suggested to readjust the text by not directly referring to IFRS 18 but rather keep a broader concept - a lot of undertakings in scope might not be using IFRS 18 but instead, local accounting standards and regulations.	Secretariat implemented this in the draft IG.
Section 2 IR-1 Processes to identify and assess	The EFRAG Secretariat agreed to re-phrase Para 39 to illustrate more explicitly that it applies across all sustainability matters, and that only the content for E is listed. The following phrase was suggested: <i>‘whilst</i>	Secretariat implemented this in the draft Standard.

Topic / DR	Discussion at SR TEG 24 October	Summary of change in Revised LSME after SR TEG 24 October
material impacts and risks	<i>the general approach applies to Environmental, Social and Governance, for environmental matters as additional...'</i>	
Section 2 SBM-3 - Material impacts and risks and their interaction with strategy and business model		Merged, reformatted and moved to the main text of Section 2 the disclosure requirements related to the company's own workforce, value chain workers, affected communities and consumers and end-users.
Section 2 IR-2 Disclosure Requirements in ESRs LSME covered by the undertaking's sustainability statement	EFRAG Secretariat agreed to explore the option of adding to paragraph 44 the following: <i>'this list may also be prepared in conjunction with the other (mandatory EU datapoints) content index'</i> .	Secretariat implemented this in the draft Standard.
SFDR	Secretariat explained the approach of turning Table 2 and 3 SFDR PAIs to voluntary after an SR TEG member's related question – those PAIs are voluntary except for occasions where the datapoint is the only one found in a topic and/or has value chain implications (E2). For those that are PAT SFDR Table 2 and 3, it was agreed in this session	Reinserted for PAT related ones as 'if applicable'

Topic / DR	Discussion at SR TEG 24 October	Summary of change in Revised LSME after SR TEG 24 October
	<p>to reinsert them as ‘if applicable’ which follows the general logic of these categories of disclosures.</p> <p>On topical SBM-3 disclosure of geographies or commodities for which there is a significant risk of child labour, or of forced or compulsory labour, among workers in the undertaking’s value chain, Secretariat will explore if this can be turned to ‘if applicable’.</p>	
<p>Section 3 PATs</p>	<p>To consider re-writing the datapoints to reduce the over-use of ‘may’ so that it reads along the lines of ‘this is the content that normally a policy on this topic should cover’.</p>	<p>Secretariat implemented this in the draft Standard by inserting topic specific information on PAT regarding E and G topics in the main body of Policies and actions as minimum qualifier of information (same regime / disclose if you have).</p> <p>Noting that Targets and Processes to engage and remediate are not explicit content of the CSRD:</p> <ul style="list-style-type: none"> <li>• Secretariat reinserted topic specific requirements on GHG targets in the main body of the draft Standard as minimum qualifier of information due to their significance on GHG emissions reporting and connection to SFDR.</li> <li>• On the other hand, a considerable number of AR related to targets on E (particularly for DRs from E2 to E5) and S and Processes to engage and remediate has been moved to the IG.</li> <li>• Merged ARs related to disclosures about engagement processes with the company's own workforce, value chain</li> </ul>

Topic / DR	Discussion at SR TEG 24 October	Summary of change in Revised LSME after SR TEG 24 October
		workers, affected communities and consumers and end-users.
Section 4 E6 Anticipated financial effects	On the proposal to delete transition risks, an SR TEG member recommended to keep it mandatory ('shall disclose'). The Secretariat suggested to turn it to 'if applicable' as mandatory to high-impact sectors.	Secretariat implemented this in the draft Standard.
Section 5		<ul style="list-style-type: none"> <li>• S1-7 Health and Safety: Made the 'if relevant' disclosure of recordable accidents for non-employees voluntary.</li> <li>• S1-8 Remuneration metrics: Eliminated option to disclose gender pay gap broken down by variable and non-variable components of total pay.</li> <li>• S1-10 Diversity Metrics: Inserted exemption for small listed companies, i.e. those that have no more than 50 employees.</li> <li>• ARs: Eliminated several ARs, either through merging or moving them to implementation guidance, especially the ARs corresponding to S1-9 Incidents and severe human rights impacts.</li> <li>• Appendices: Moved the tables in the appendices that support the application of cross-cutting disclosure requirements with respect to S1 to either Section 2, Section 3 or implementation guidance.</li> </ul>

### Approval of draft LSME in this SR TEG meeting

- 12 As per article 42 of EFRAG Internal Rules<sup>1</sup>, in all decisions of EFRAG SR TEG, a simple majority will apply. However, as always in practice the EFRAG SR Chair is committed to promote a consensus approval to the maximum extent possible. Only if consensus is not possible, the majority vote will apply.
- 13 Members that cannot attend this meeting are invited to provide their written intention of vote head of the meeting.
- 14 EFRAG SR TEG members may either approve or dissent. A dissent may only be justified by a disagreement on fundamental elements of the LSME Standard. Dissenting on the LSME standard will have to be justified by the dissenting member. Members that intend to dissent will have to provide an explanation that will be reported to the EFRAG SRB.
- 15 Once draft LSME standard is approved, the EFRAG Secretariat will proceed with further editorial changes and improvements (formatting, potential spelling errors, references to number of paragraphs, etc.) and then will submit it for approval by the EFRAG SRB.

#### Questions for EFRAG SR TEG

- 16 Does EFRAG SR TEG agree with the changes summarized in the table above which were agreed in the last SR TEG meeting?
- 17 Subject to editorial adjustments, does SR TEG approve to recommend that the EFRAG SRB issues this LSME standard and the accompanying Implementation Guidance to the European Commission?

### Workshops conducted

- 18 EFRAG Secretariat conducted three workshops:

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<sup>1</sup> [EFRAG Internal Rules - Approved by the GA 28 April 2022- .pdf](#)



- (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**

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

- (a) Agenda paper 03-02 – draft Revised LSME Section 1 General requirements (track changes compared to ESRS LSME ED) – EFRAG SR TEG 07-11-24;
- (b) Agenda paper 03-03 – draft Revised LSME Section 2 General disclosures (track changes compared to ESRS LSME ED) – EFRAG SR TEG 07-11-24;
- (c) Agenda paper 03-04 – draft Revised LSME Section 3 Policies Actions and Targets (track changes compared to ESRS LSME ED) – EFRAG SR TEG 07-11-24;
- (d) Agenda paper 03-05 – draft Revised LSME Section 4 Environment (track changes compared to ESRS LSME ED) – EFRAG SR TEG 07-11-24;
- (e) Agenda paper 03-06 – draft Revised LSME Section 5 Social (track changes compared to ESRS LSME ED) – EFRAG SR TEG 07-11-24;
- (f) Agenda paper 03-07 – draft Revised LSME Section 6 Business conduct (track changes compared to ESRS LSME ED) – EFRAG SR TEG 07-11-24;
- (g) Agenda paper 03-08 – draft Revised LSME Section 1 General requirements (clean version) – EFRAG SR TEG 07-11-24;
- (h) Agenda paper 03-09 – draft Revised LSME Section 2 General disclosures (clean version) – EFRAG SR TEG 07-11-24;
- (i) Agenda paper 03-10 – draft Revised LSME Section 3 Policies Actions and Targets (clean version) – EFRAG SR TEG 07-11-24;
- (j) Agenda paper 03-11 – draft Revised LSME Section 4 Environment (clean version) – EFRAG SR TEG 07-11-24;
- (k) Agenda paper 03-12 – draft Revised LSME Section 5 Social (clean version) – EFRAG SR TEG 07-11-24;
- (l) Agenda paper 03-13 – draft Revised LSME Section 6 Business conduct (clean version) – EFRAG SR TEG 07-11-24; and

(m) Agenda paper 03-14 – draft Revised LSME IG (SR TEG background document) – EFRAG SR TEG 07-11-24.