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[Draft] ESRS for listed SMEs Section 1

STATUS OF THIS DRAFT

Editorial review in progress. Still pending:

- Inclusion of a hyperlink after each requirement referencing to the AR that cover that specific requirement
- Check drafting conventions (italics)
- Final check of internal references to paragraph numbers including references to other sections

Text highlighted in turquoise illustrates the changes made after the discussion held at SR TEG on 24 of October.

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[Draft] ESRS LSME – SECTION 1 GENERAL REQUIREMENTS

DISCLAIMER

Section 1 *General requirements* is set out in paragraphs 1–121. The following appendices of Section 1 have the same authority as the main body of the [draft] Standard:
- *Appendix A: Application Requirements*,
- *Appendix B: List of phased-in Disclosure Requirements*, and
- *Appendix C: Structure of ESRS sustainability statement*.

ESRS LSME Section 1 *General requirements* is accompanied by the following illustrative non-authoritative appendices:
- *Appendix D: Flowchart for determining disclosures to be included*,
- *Appendix E: Example of structure of ESRS sustainability statement*,
- *Appendix F: Example of incorporation by reference*, and
-*Appendix G: List of Disclosure/Application Requirements in Section 2.*

Section 1: Table of Contents

Objective

1. The objective of this European Sustainability Reporting Standard for listed SMEs (LSME ESRS) is to specify the sustainability information that the undertakings identified in the paragraphs below shall disclose in their individual sustainability statement in accordance with Directive 2013/34/EU of the European Parliament and of the Council[1], as amended by Directive (EU) 2022/2464[2] (the "CSRD"), when they elect to present their sustainability statement in accordance with the sustainability reporting standards for small and medium-sized undertakings. Reporting in accordance with LSME ESRS does not exempt undertakings from other obligations laid down in substantive Union law. In particular, this [draft] Standard sets out *General Requirements* (Section 1), *General Disclosures* (Section 2), *Policies, actions and targets* (Section 3) and *Topical Metrics* (Sections 4, 5 and 6) that specify the sustainability information to be disclosed in accordance with Directive 2013/34/EU as amended by Directive EU 2022/2464 Corporate Sustainability Reporting Directive when using the derogation in Art. 19a(6) and 29c.

Scope

2. The following undertakings fall within the scope of LSME ESRS (hereafter collectively referred to as 'the LSME' or 'the undertaking'):

   (a) small and medium-sized undertakings within the meaning of Article 3(2) and (3) of Directive 2013/34/EU which are public-interest entities as defined in point (a) of point (1) of Article 2 of that Directive and which are not micro-undertakings as defined in Article 3(1) of that Directive;

   (b) small and non-complex institutions defined in point (145) of Article 4(1) of Regulation (EU) No 575/2013, provided they are large undertakings within the meaning of Article 3(4) of Directive 2013/34/EU or that they are small and medium sized undertakings within the meaning of Article 3(2) and (3) of that Directive which are public-interest entities as defined in point (a) of point (1) of Article 2 of that Directive and which are not micro undertakings as defined in Article 3(1) of that Directive; 16.12.2022 EN Official Journal of the European Union L 322/77;

   (c) captive insurance undertakings defined in point (2) of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council (39), and captive reinsurance undertakings defined in point (5) of Article 13 of that Directive, provided that they are large undertakings within the meaning of Article 3(4) of Directive 2013/34/EU or that they are small and medium sized undertakings within the meaning of Article 3(2) and (3) of that Directive which are public-interest entities as defined in point (a) of point (1) of Article 2 of that Directive and which are not micro-undertakings as defined in Article 3(1) of that Directive.

3. An LSME is allowed to use the derogation in Art. 19a (6) and 29c of the CSRD and prepare its individual sustainability statement using this [draft] Standard when it is not a parent undertaking of a large group. A large group is a group that on a consolidated basis exceeds the limits of at least two of the three following criteria as defined in Art. 3 (7) of Directive 2013/34/EU:

   (a) balance sheet total – EUR 25,000,000,

   (b) net turnover – EUR 50,000,000,

   (c) average number of employees during the financial year – 250.

[1] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

[2] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (OJ L 322, 16.12.2022, p. 15).

4. An LSME, which is a parent undertaking of a large group, is required to present a consolidated sustainability statement in its management report prepared according to the ESRS for large undertakings (Art. 29a and 29b of Directive 2013/34/EU as emended by the CSRD, Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023). However, if an LSME is parent undertaking of a large group and it is exempted from preparing and publishing consolidated financial statements based on Article 23(10) of the Accounting Directive (i.e. because it only has subsidiary undertakings which are immaterial, both individually and collectively, or because all its subsidiary undertakings can be excluded from consolidation by virtue of Article 23(9) of the Accounting Directive), that LSME is not required to prepare and publish a consolidated sustainability statement and may prepare its individual sustainability statement in accordance with this [draft] Standard (Article 19a(6) Accounting Directive).

5. In particular, the LSME ESRS specifies the information that an undertaking shall disclose about its material ***impacts*** and material ***risks*** in relation to environmental, social and governance ***sustainability matters*** (topics, sub-topics and sub-sub-topics, as defined in AR 22 of this section). Without prejudice to the reporting of information to be mandatorily provided following Section 2 irrespective of materiality considerations, the LSME ESRS does not require undertakings to disclose any information on environmental, social or governance matters covered by this standard whenever they have determined a topic to be non-material (see *Appendix E: Flowchart for determining disclosures under LSME ESRS*). The information disclosed in accordance with this [draft] Standard enables ***users*** of the ***sustainability statement*** to understand the undertaking's material negative impacts on people and environment as well as the material effects of sustainability matters on the undertaking's development, performance and position. Reporting on positive impacts and opportunities is voluntary.

LSME General Requirements

6. This section lays out the general requirements that undertakings shall comply with when preparing and presenting their individual sustainability statement under article 19a (6) and article 29c of the CSRD. This [draft] Standard establishes sustainability reporting requirements for LSME undertakings that are proportionate and relevant to their capacities and characteristics and to the scale and complexity of their activities.

1. Categories of disclosures, reporting areas and drafting conventions

1.1 Complying with [draft] LSME ESRS

7. The undertaking shall disclose, in accordance with this [draft] Standard, all of its material information concerning ***impacts*** and ***risks*** in relation to environmental, social, and governance matters. This information shall enable the understanding of the undertaking's negative ***impacts*** on those matters and of how they affect its development, performance and position.

8. In this [draft] Standard the term impacts is used to indicate both negative and positive impacts, in particular the first reported mandatorily (subject to the relevant materiality considerations as per paragraphs 47 to 53 of Section 1) and the second when additionally reported on a voluntary basis. Opportunities are included in parenthesis after risks to indicate that a provision is applicable to both risks reported mandatorily (subject to the relevant materiality considerations as per paragraphs 54 to 62 of Section 1) and to opportunities when reported on a voluntary basis.

9. The undertaking may on a voluntary basis (as define in paragraph 8) disclose in its sustainability statement prepared pursuant to this [draft] Standard:

   (a) material information regarding its positive impacts in relation to environmental, social and governance matters; and

(b) sustainability-related financial opportunities (in this [draft] Standard “opportunities”) that generate or are likely to generate material financial effects in the short-, medium- or long-term.

10. The undertaking shall present its individual sustainability statement containing material sustainability-related information as part of its management report (see chapter 8 *Structure of sustainability statement*.

1.2 LSME ESRS ED structure and reporting areas

11. This [Draft] Standard is composed of the following sections:

Section 1 *General requirements;*

Section 2 *General disclosures;*

Section 3 *Policies, actions and targets;*

Section 4 *Environmental metrics;*

Section 5 *Social metrics;* and

Section 6 *Business conduct metrics*.

12. Section 1, Section 2 of this [draft] Standard are cross-cutting, whereas Section 3 is on Policies, actions and targets and, Section 4, Section 5 and Section 6 are topical (environmental, social and business conduct metrics, respectively). Both cross-cutting sections and topical sections are sector-agnostic, meaning that they apply to all undertakings regardless of the sector or sectors they operate in. Section 1 (*General requirements*), Section 2 (*General disclosures*) and Section 3 (*Policies, actions and targets*) apply to the ***sustainability matters*** covered in the topical sections. Section 2 of this [draft] Standard establishes certain information that is to be mandatorily provided irrespective of materiality consideration by the undertaking at a general level, across all sustainability topics; however, paragraph 32 below is applicable to Section 2 in determining the granularity of the information to be provided.

13. The topical sections of this [draft] Standard cover sustainability topics. Topics are broken down into topics, subtopics and, where necessary, sub-subtopics. Disclosure Requirements (hereafter also “DRs”) are organised in accordance with this topical approach. The table found in *Appendix A: Application Requirements* of this [draft] Standard (paragraph AR 24 offers the list of sustainability topics, subtopics and sub-subtopics (collectively, ‘***sustainability matters***’) covered in the [draft] topical sections.

14. The Disclosure Requirements in this [draft] Standard cover the following reporting areas:

(a) **Governance** (GOV): the governance processes, controls and procedures used to monitor and manage ***impacts*** and ***risks*** (see Section 2 of this [draft] Standard, chapter 2 *Governance*);

(b) **Strategy** (SBM): how the undertaking’s strategy and business model interact with its material ***impacts*** and ***risks***, including how the undertaking addresses those ***impacts*** and ***risks*** (see Section 2 of this [draft] Standard, Chapter 3 *Strategy*);

(c) **Impact and risk management** (IR): the process(es) by which the undertaking *(i)* identifies impacts and risks (and opportunities) and assesses their ***materiality*** (see Section 2 *Disclosure Requirement 9 (IR-1)*); *(ii)* manages material ***sustainability matters*** through ***policies*** and ***actions*** (see Section 3 *Disclosure Requirement 11 (IR-3)*); *(iii)* discloses information about ***targets*** if it has set them (see Section 3 *Disclosure Requirement 12 (IR-4)*); *(iv)* engages with ***own workers***, workers in the value chain, ***affected communities***, consumers and ***end-users***, and their representatives on such ***impacts*** to the extent that it has ***stakeholder engagement*** in place (see Section 3 *Disclosure Requirement 13 (IR-5)*); and *(v)* remediates negative ***impacts*** and implements channels for ***own workers***, workers in the value chain, ***affected communities***, ***consumers*** and ***end-users*** to raise concerns to the extent that it has remediation activities and channels in place (see Section 3 *Disclosure Requirement 14 (IR-6)*); and

(d) **Metrics** (M): how the undertaking measures its performance (see topical sections 4, 5 and 6 of this [draft] Standard).

15. In addition to the disclosure requirements laid down in the sections listed in paragraph 11, when an undertaking concludes that an ***impact*** or ***risk*** (or opportunity) is either not covered or not covered with sufficient granularity by a section of this standard, but is material due to the undertaking's specific facts and circumstances it shall provide additional entity-specific disclosures to enable users to understand the undertaking's ***sustainability-related impacts and risks (or opportunities)***. This includes sector-specific disclosures that are not covered by this [draft] sector agnostic standard. When appropriate, such sector-specific disclosures shall cover information about upstream and downstream value chain (including subsidiaries).

16. When disclosing sector-specific information the undertakings shall consider whether the available and relevant frameworks, initiatives, reporting standards and benchmarks (such as technical material issued by the International Sustainability Standards Board, the Global Reporting Initiative]) provide elements that can support comparability to the maximum extent possible. The undertaking shall consider the content of future Sector ESRS when they will be available.

17. Application Requirements AR 1 to AR 8 of this section provide further guidance regarding entity-specific disclosures.

18. When Sector specific ESRS for large undertakings will be effective, the undertaking may refer to the relevant sector ESRS in the preparation of sector disclosures to be covered by the undertaking as entity-specific disclosure.

1.3 Terminological conventions

19. In this [draft] Standard:

(a) the term '***impacts***' refers to ***sustainability-related impacts*** (both negative and positive impacts, as defined in paragraph 8) connected to the undertaking's business as identified through an ***impact materiality*** assessment process (see section 3.4 *Impact materiality*). It refers both to actual impacts and potential future impacts; and

(b) the term '***risks***' refers to the undertaking's sustainability-related financial risks, including those deriving from ***dependencies*** on natural, human and social resources as identified through a ***financial materiality*** assessment process (see Section 3.5).

Collectively, these are referred to as '***impacts*** and ***risks***' (IRs). They reflect the ***double materiality*** perspective of ESRS described in Section 3; the disclosure of ***material opportunities*** is made only on voluntary basis (as defined in paragraph 8).

20. In this [draft] Standard, terms that are defined in the glossary of definitions (Annex II) are marked in ***bold italic*** except when they are used more than once in the same paragraph.

21. The ESRS structure the information that is to be disclosed under the Disclosure Requirements. Each disclosure requirement consists of one or more distinct datapoints. The term 'datapoint' can also refer to a narrative sub-element of a disclosure requirement.

22. In addition to the Disclosure Requirements, most sections also contain Application Requirements. Application Requirements support the application of the Disclosure Requirements and have the same authority as the other parts of this [draft] Standard.

23. This [draft] Standard uses the following terms to distinguish between different degrees of obligation on the undertaking to disclose information:

(a) "shall disclose" – indicates that the provision is prescribed by a Disclosure Requirement or datapoint;

(b) "may disclose" – indicates voluntary disclosure to encourage good practice.

24. Some of the disclosure requirements are applicable only when certain circumstances that trigger disclosure are met. When the circumstances are different from those that would trigger disclosure of that specific datapoint, no information has to be provided. This approach could support the assessment of the materiality of the information, indicating in which circumstances the information could be material, but it is not replacing the double materiality assessment to be performed by the undertakings according to chapter 3 of this section. This includes datapoints to be disclosed only when an undertaking has a process, policy, action, etc. in place that would trigger disclosure of that specific information.

25. In addition, this [draft] Standard uses the term "shall consider" when referring to topic specific information in Section 3, issues, resources or methodologies that the undertaking is expected to take into account or to use in the preparation of a given disclosure if applicable.

26. Some disclosure requirements in this [draft] Standard[3] include a "reasonable effort" clause. This means that an undertaking is not required to provide the disclosure in question if the cost or effort required to obtain the necessary information is excessive relative to its benefits, i.e., if it does not make a material difference to the significance of the information or to the decision-making by users of the ESRS statement, in the meaning of paragraph 38 of this Section. The "reasonable effort" principle depends on the degree of the undertaking's exposure to impacts and risks, its specific facts and circumstances as well as the conditions of the external environment in which it operates, and the benefits of the resulting information. What constitutes reasonable effort is therefore likely to vary from undertaking to undertaking. The undertaking shall consider all information that is 'reasonably available' to them at the reporting date. This also means that it cannot disregard any information it already has or knows about, as it must be factored into its assessment of what constitutes "reasonable effort".

2. Qualitative characteristics of information

27. When preparing its ***sustainability statement***, the undertaking shall provide information that is:

(a) relevant, meaning that the information may make a difference in the decisions of users under a double materiality approach (see chapter 3 of this [draft] Standard). Information may make a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Sustainability information may impact decisions of users if it has predictive value, confirmatory value or both;

(b) faithful, meaning that to be useful, the information must not only represent relevant phenomena, it must also faithfully represent the substance of the phenomena that it purports to represent. Faithful representation requires information to be (i) complete, (ii) neutral and (iii) free from error;

(c) comparable, meaning that an information can be compared with the one provided by the undertaking in previous periods, and can be compared with information provided by other undertakings, in particular those with similar activities or operating within the same industry. A point of reference for comparison can be a target, a baseline, an industry benchmark, comparable information from either other undertakings or from an internationally recognised organisation, etc.

[3] Such circumstances appear across this [draft] Standard, namely: chapters 4.2, 6.1, 6.3, 6.4, 6.5, 6.6 in Section 1, DR 2 (BP-2) and DR 7 (SBM-3) in Section 2, DR E1-1, DR E1-2 and DR E6 in Section 4 and DR S1-9 in Section 5 as well as Appendix C of Section 1.

(d) verifiable, meaning that various knowledgeable and independent observers could reach consensus although not necessarily complete agreement that a particular depiction is a faithful representation. Sustainability information is verifiable if it is possible to corroborate the information itself or the inputs used to derive it and it shall be provided in a way that enhances its verifiability.

(e) understandable, meaning that the information is clear, and concise. Understandable information enables any reasonable knowledgeable user to readily comprehend the information being communicated.

3. Double materiality as the basis for sustainability disclosures

28. The undertaking shall report on ***sustainability matters*** based on the ***double materiality*** principle as defined and explained in this chapter.

3.1 Stakeholders and their relevance to the materiality assessment process

29. ***Stakeholders*** are those who can affect or can be affected by the undertaking. There are two main groups of stakeholders:

(a) affected ***stakeholders***: individuals or groups of individuals whose interests are affected or could be affected – whether positively or negatively – by the undertaking's activities and its direct and indirect ***business relationships*** across its value chain, and

(b) users of ***sustainability statement***: primary users of general purpose financial reporting (existing and potential investors, lenders and other creditors, including asset managers, credit institutions, insurance undertakings), as well as other users, including the undertaking's business partners, trade unions and social partners, the civil society and non-governmental organisations, governments, analysts and academics.

30. Some, but not all, ***stakeholders*** may belong to both groups defined in paragraph 29.

31. To the extent that an undertaking engages with affected ***stakeholders***, engagement with them supports the undertaking's sustainability ***materiality*** assessment. This includes its processes for identifying and assessing actual and potential ***impacts***, which then inform the assessment process for the identification of material ***impacts*** for the purposes of sustainability reporting (see Chapter 3.4 of this Section).

3.2 Material matters and materiality of information

32. Performing a ***materiality*** assessment (see chapters 3.4 and 3.5 of this Section) is necessary for the undertaking to identify the material ***impacts*** and ***risks*** that are to be reported. If an undertaking reports on its material positive ***impacts*** and/or ***opportunities*** on a voluntary basis, these are also covered by the materiality assessment.

33. The ***materiality*** assessment is the starting point for sustainability reporting under this [draft] Standard. Disclosure Requirement 9 *(IR-1)* in Section 2 of this [draft] Standard includes general disclosure requirements on the undertaking's process for identifying ***impacts*** and ***risks*** and assessing their materiality. Disclosure Requirement 7 *(SMB-3)* of Section 2 provides general disclosure requirements on the material ***impacts*** and ***risks*** resulting from the undertaking's materiality assessment.

34. The Application Requirements laid out in *Appendix A* of this Section, (paragraph AR 22 include the list of ***sustainability*** matters covered in the topical sections of this [draft]

Standard. They are broken down by topics, sub-topics and sub-subtopics to support the ***materiality*** assessment). *Appendix E Flowchart for determining disclosures to be included* of this [draft] Standard provides an illustrative example of the materiality assessment process described in this Section.

35. A sustainability matter is 'material' if it meets the criteria defined for ***impact materiality*** (see chapter 3.4 of this Section) and/or the criteria defined for ***financial materiality*** (see chapter 3.5 of this Section).

36. Irrespective of the outcome of the materiality assessment, as also stated in paragraph 12 of this Section, the undertaking shall always disclose certain information (see Appendix G) required by Section 2 of this [draft] Standard (i.e., all Disclosure Requirements and data points).

37. If, as a result of its ***materiality*** assessment, the undertaking concludes that a sustainability matter is material, it shall:

    (a) disclose information according to the Disclosure Requirements (including Application Requirements) related to that specific sustainability matter in the relevant sections of this [draft] Standard; and

    (b) disclose additional appropriate entity-specific disclosures (see paragraph 15 and AR 1 to AR 7 of this Section) whenever the material sustainability matter is either not covered by this [draft] Standard or is covered with insufficient granularity.

38. Applicable information prescribed within a Disclosure Requirement, including its datapoints, or within an entity-specific disclosure shall be disclosed when the undertaking determines, as part of its assessment of material information, that such information is relevant from at least one of the following perspectives:

    (a) the significance of the information in relation to the matter it purports to depict or explain or

    (b) the capacity of such information to meet users' decision-making needs, including the needs of primary users of general purpose financial reporting described in paragraph 66 and/or the needs of users whose principal interest lies in information about the undertaking's impacts.

39. If the undertaking concludes that climate change is not material and therefore omits all disclosure requirements related to E1 Climate Change, it shall disclose a detailed explanation of the conclusions of its ***materiality*** assessment with regard to climate change (see Section 2 Disclosure Requirement 10 *(IR-2) Disclosure Requirements in ESRS covered by the undertaking's sustainability statement*).

40. If the undertaking concludes that a topic other than climate change is not material and therefore omits all the corresponding Disclosure Requirements in Section 3 or in the topical Sections of this [draft] Standard, it may briefly explain the conclusions of its materiality assessment for that topic.

41. When reporting on ***policies***, ***actions*** and ***targets*** in relation to a ***sustainability matter*** that has been assessed to be material, the undertaking shall apply the requirements outlined in Section 3 of this [draft] Standard (see Disclosure Requirement 11 *(IR-3) – Policies and actions in relation to sustainability matters,* and Disclosure Requirement 12 *(IR-4) – Targets in relation to sustainability matters*). The undertaking may omit information prescribed by certain datapoints related to policies, actions and targets, when the circumstances are different from those that would trigger disclosure of that specific datapoint (i.e. because the undertaking has not adopted the respective policies or implemented the respective actions or set the respective targets).

42. When disclosing information on ***metrics*** for a material ***sustainability matter***, the undertaking shall apply the requirements stipulated in Sections 4, 5 and 6 of this [draft] Standard and it:

(a) shall include the information prescribed by a Disclosure Requirement if it assesses such information to be material;

(b) may omit the information prescribed by a datapoint of a Disclosure Requirement if it assesses such information to be not material and concludes that such information is not needed in order to meet the objective of the Disclosure Requirement in question; and

(c) may omit information prescribed by certain datapoints s, when the circumstances are different from those that would trigger disclosure of that specific datapoint.

43. If the undertaking omits the information prescribed by a datapoint derived from other EU legislation listed in *Appendix B* of Section 2 of this [draft] Standard, it shall explicitly state that the information in question is ‘not material’ or “not applicable” or “not disclosed because it is voluntary”. When disclosing this information on datapoint derived from other EU legislation the undertaking shall define a content index as described in DR 10 IR-2 in Section 2.

44. The undertaking shall establish how it applies qualitative or quantitative criteria, including appropriate thresholds, to determine:

(a) the information that is to be disclosed on metrics for a material sustainability matter and

(b) the information that is to be disclosed as entity-specific disclosures.

3.3. Double materiality

45. ***Double materiality*** has two dimensions, namely ***impact materiality*** and ***financial materiality***. Unless otherwise specified, the terms ‘material’ and ‘materiality’ used throughout this [draft] Standard refer to ***double materiality***.

46. ***Impact materiality*** and ***financial materiality*** assessments are interrelated, and the interdependencies between these two dimensions shall be considered.

47. When identifying and assessing the ***impacts*** and ***risks*** (and opportunities) that may occur in the undertaking’s ***value chain*** in order to determine their ***materiality***, the undertaking shall focus on areas where they are deemed likely to arise based on the nature of the activities, business relationships, geographies and other relevant risk factors.

48. Impact materiality covers impacts associated with direct relationships (such as subsidiaries, suppliers, clients, etc.) or those further up/downstream.

49. An undertaking’s principal ***impacts*** and ***risks*** (and opportunities) are understood to be the same as the material impacts and risks (and opportunities) identified with the ***double materiality*** principle and therefore reported in its ***sustainability statement***.

50. The undertaking shall apply the criteria set under chapters 3.4 and 3.5 in this section of these [draft] Standard using appropriate quantitative and/or qualitative thresholds. Appropriate thresholds are necessary to determine which ***impacts*** and ***risks*** are identified as material and addressed by the undertaking and to determine which ***sustainability matters*** are material for reporting purposes. Some existing standards and frameworks use the term ‘most significant impacts’ when referring to the threshold used to identify the impacts described in this [draft] Standard as ‘material impacts’.

3.4 Impact materiality

51. From the impact perspective, a sustainability matter is to be reported on when it gives rise to material impacts. In this context, impacts include:

(a) actual or potential impacts on people or on the environment over the short, medium, and long-term time horizons. An impact is actual when it is already happening, whereas an impact is potential when it is likely to happen; and

(b) impacts connected to the undertaking's own business operations, products and services as well as through its business relationships, such as those that arise from the operations of suppliers

52. A ***sustainability matter*** is material from an impact perspective when it pertains to the undertaking's material actual or potential ***impacts*** on people or the environment over the short-, medium- or long-term. Impacts include those connected to the undertaking's own operations and to its upstream and downstream value chain, including through its products and services as well as through its business relationships. ***Business relationships*** include those in the undertaking's upstream and downstream ***value chain*** (including subsidiaries, as specified in paragraph 63 of this section) and are not limited to direct contractual relationships.

53. In the context of this [draft] Standard, impacts on people or the environment include impacts in relation to environmental, social and governance matters.

54. For actual negative impacts materiality is based on the severity of the impact while for potential negative impacts it is based on the severity and likelihood of the impact. Severity is based on the following factors:

(a) the scale;

(b) scope; and

(c) irremediable character of the impact.

In the case of a potential negative human rights impact the severity of the impact takes precedence over its likelihood.

55. If an undertaking asses its positive impacts on a voluntary basis (as defined in paragraph 8), the materiality is based on:

(a) the scale and scope of the impact for actual impacts; and

(b) the scale scope and likelihood of the impact for potential impacts.

3.5 Financial materiality

56. The scope of ***financial materiality*** for sustainability reporting results from the expansion of the scope of materiality used for determining which information should be included in the undertaking's financial statements.

57. The ***financial materiality*** assessment corresponds to the identification of information that is considered material for primary users of general-purpose financial reporting in making decisions relating to providing resources to the undertaking. In particular, information is considered material for primary users of general-purpose financial reporting if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's ***sustainability statement***.

A sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material ***financial effects*** on the undertaking. This is the case when a sustainability matter generates or may generate ***risks*** that have a material influence, or that could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or the cost of capital over the short-, medium- or long-term. ` The ***financial materiality*** of a sustainability matter is not constrained to matters that are within the control of the undertaking but includes information on ***material risks*** (and opportunities) attributable to ***business relationships*** with other undertakings, including its subsidiaries, or ***stakeholders*** beyond the scope of financial control.

58. ***Dependencies*** on natural and social resources can constitute sources of financial ***risks***. ***Dependencies*** may trigger effects in two possible ways:

(a) they may influence the undertaking's ability to continue to use or obtain the resources needed in its business processes as well as the quality and pricing of those resources, and

(b) they may affect the undertaking's ability to rely on relationships needed in its business processes on acceptable terms.

59. The ***materiality*** of ***risks*** (and opportunities) is assessed based on a combination of likelihood of occurrence and potential magnitude of the ***financial effects***.

3.7 Level of disaggregation

60. When needed to have a proper understanding of its material ***impacts*** and ***risks***, the undertaking shall disaggregate the reported information in a way that reflects the appropriate level at which significant variations of material impacts and/or risks materialise, such as in specific sectors, countries or sites.

4. Value chain

4.1 Reporting undertaking and value chain

61. The information about the reporting undertaking provided in the ***sustainability statement*** shall be extended to include information on the material ***impacts*** and ***risks*** (and opportunities) connected to the undertaking through its ***business relationships*** in the upstream and/or downstream ***value chain*** ('value chain information'), including information on material impacts and risks (and opportunities) associated with its subsidiaries. In particular, the undertaking shall include material impacts and risks (and opportunities) associated with its upstream and downstream value chain(s), including its subsidiaries:

(a) following the outcome of its ***materiality*** assessment and, if a due diligence process is in place, of its due diligence process;

(b) in accordance with any specific requirements related to the value chain in this [draft] Standard; and

(c) when necessary, on an entity specific basis according to paragraph 15 of this section.

62. The provision (see paragraph 61) to include value chain information does not require collecting information on each and every actor in the value chain, but only the inclusion of material value chain information, focusing on value chain parts that are likely to be associated with these material impacts and risks (and opportunities).

63. The undertaking shall include material value chain information when this is necessary to:

(a) allow users of sustainability statement to understand the undertaking's material impacts and risks (and opportunities); and/or

(b) produce a set of information that meets the qualitative characteristics of information (see chapter 2 of this Section).

64. When determining at which level within its own operations and upstream and downstream value chain does a material sustainability matter arise, the undertaking shall use its assessment of ***impacts*** and ***risks*** (and opportunities) following the ***double materiality*** principle (see chapter 3 of this [draft] Standard).

65. If subsidiaries, associates or joint ventures are part of the undertaking's value chain (as specified in paragraph 61 of this section) – for example, as suppliers – and when the undertaking is connected with material ***impacts*** and ***risks*** (and opportunities) through its business relationships with them, the undertaking shall include information related to those

subsidiaries, associates or joint ventures following paragraph 63 in accordance with the approach adopted for the other ***business relationships*** in the value chain. In this case, when determining impact ***metrics***, the data of the subsidiaries, associate or joint venture are not limited to the share of equity held but taken into account on the basis of the impacts that are connected with the undertaking’s products and services through its business relationships.

4.2 Estimation using sector averages and proxies

66. The undertaking’s ability to obtain the necessary upstream and downstream ***value chain*** information may vary depending on various factors such as the undertaking’s contractual arrangements, the level of control that it exercises on the operations outside the consolidation scope and its buying power. If the undertaking does not have the ability to control the activities of its upstream and/or downstream value chain and its business relationships, obtaining value chain information may be more challenging.

67. There are circumstances where the undertaking cannot collect information about its upstream and downstream ***value chain*** as required by paragraph 61 despite making reasonable efforts to do so. In these circumstances, the undertaking shall estimate the information to be reported about its upstream and downstream value chain by using all reasonable and supportable information such as sector-average data and other proxies.

68. Obtaining ***value chain*** information could be particularly challenging for an LSME if its upstream and/or downstream value chain entities are not in the scope of the CSRD, as the LSME may have less control over its value chain and fewer resources to collect data.

69. The undertaking may rely on and refer to information contained in the ESRS sustainability statement of an actor in its value chain when such an actor publishes mandatory ESRS sustainability statement, if that statement contains the information needed in the preparation of the undertaking`s ESRS sustainability statement. If an ***actor in the value chain*** that does not prepare the mandatory ESRS sustainability statement nevertheless publishes sustainability information according to other standards or frameworks (such as any voluntary standard issued in the EU [VSME] or GRI Standards, or IFRS Sustainability Disclosures Standards, or EMAS), the undertaking may rely on and refer to information contained in that sustainability statement or in another document, if based on the undertaking’s management’s judgement, such information meet the qualitative characteristics of information specified in chapter 2 of this Section. If there are clear indications that material impacts and risks (and opportunities) are not addressed appropriately in this sustainability statement or if the information disclosed do not meet the aforementioned qualitative characteristics of information, then further work on the specific impacts and risks (and opportunities) in the value chain may be needed.

70. When the undertaking includes value chain information in its metrics, in many cases and in particular for environmental matters in which proxies are available, the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its upstream and downstream value chain, for example, when calculating the undertaking’s ***GHG Scope 3 emissions***.

71. The incorporation of estimates made using sector-average data or other proxies shall not result in information that does not meet the qualitative characteristics of information (see Chapter 2 and Chapter 6.2 *Sources of estimation and outcome uncertainty* of this Section).

72. With reference to ***policies*** and ***actions***, the undertaking’s reporting shall include upstream and/or downstream ***value chain*** (including subsidiaries, as specified in paragraph 61 of this section) information to the extent that those policies and actions involve ***actors in the value chain***.

73. If the undertaking has set targets and reports on them, it shall include upstream and/or downstream value chain (including subsidiaries, as specified in paragraph 61 of this section) information to the extent that those targets involve actors in the value chain.

5. Time horizons

74. The reporting period for the undertaking's ***sustainability statement*** shall be consistent with that of its financial statements.

75. Whenever relevant, the undertaking shall establish appropriate linkages in its ***sustainability statement*** between retrospective and forward-looking information to foster a clear understanding of how historical information relates to future-oriented information.

76. When preparing its individual ***sustainability statement***, the undertaking shall adopt the following time horizons:

    (a) for the short-term time horizon, one year (in line with the period adopted by the undertaking for its financial statements);

    (b) for the medium-term time horizon, from two to five years; and

    (c) for the long-term time horizon, more than five years.

77. The undertaking shall use an additional breakdown for the long-term time horizon when ***impacts*** or ***actions*** are expected in a period longer than five years, if necessary, to provide relevant information to users of ***sustainability statement***.

78. If different definitions of medium- or long-term time horizons are required for specific items of disclosure in this [draft] Standard, those definitions shall prevail.

79. There may be circumstances where the use of the medium- or long-term time horizons outlined in paragraph 76 results in non-relevant information, as the undertaking uses a different definition for (i) its processes of identification and management of material **impacts** and **risks** or for (ii) the definition of its ***actions***. These circumstances may be due to industry-specific characteristics such as cash flow and business cycles, the expected duration of capital investments, the time horizons over which the users of ***sustainability statement*** conduct their assessments, and the planning horizons typically used in the undertaking's industry for decision-making. In these circumstances, the undertaking may adopt a different definition of medium- and/or long-term time horizons (see Section 2 Disclosure Requirement 2 *(BP-2)* paragraph 6).

80. References to 'short-term', 'medium-term', and 'long-term' in this [draft] Standard refer to time horizon as determined by the undertaking according to the provisions in paragraphs 76 to 79.

6. Preparation and presentation of sustainability information

81. This chapter provides general requirements to be met when preparing and presenting sustainability information.

6.1 Presenting comparative information

82. The undertaking shall disclose comparative information in respect of the previous period for all quantitative ***metrics*** and monetary amounts disclosed in the current period. When relevant to an understanding of the current period's ***sustainability statement***, the undertaking shall also disclose comparative information for narrative sustainability disclosures.

83. If the undertaking reports comparative information that differs from the information reported in the previous period, when possible with a reasonable effort, it shall disclose:

    (a) the difference between the figure reported in the previous period and the revised comparative figure; and

    (b) the reasons for the revision of the figure.

84. When it is not possible with a reasonable effort to adjust comparative information for one or more prior periods, the undertaking shall disclose this fact.

85. When a specific disclosure requirement of this [draft] Standard requires the undertaking to present more than one comparative period for a metric or datapoint, that requirements shall prevail.

6.2 Sources of estimation and outcome uncertainty

86. When quantitative ***metrics*** and monetary amounts, including upstream and downstream ***value chain*** information (see Chapter 4 of this Section), cannot be measured directly and can only be estimated, measurement uncertainty may arise.

87. The undertaking shall disclose information to help users understand the most significant uncertainties affecting the quantitative metrics and monetary amounts reported in its sustainability statement.

88. Even a high level of measurement uncertainty would neither necessarily prevent such an assumption or estimate from yielding useful information nor from meeting the qualitative characteristics of information (see chapter 2 of this section).

89. Data and assumptions used in preparing the ***sustainability statement*** shall be consistent to the largest extent possible with the corresponding financial data and assumptions used in the undertaking's financial statements.

90. Some topical sections of this [draft] Standard require the disclosure of information, such as explanations about possible future events that have uncertain outcomes. In judging whether information about such possible future events is material, the undertaking shall refer to the criteria set in Chapter 3 of this section and consider:

    (a) the potential financial effects of the events (i.e., the possible outcome) in terms of amount and likelihood; and

    (b) the range of severity and likelihood of the impacts on people or the environment resulting from the possible future events, taking into account the factors of severity specified in paragraph 49.

6.3 Updating disclosures about events after the end of the reporting period

91. In some cases, the undertaking may receive information after the reporting period but before the management report is approved for issuance. If such information provides evidence or insights about conditions existing at period end, the undertaking shall update estimates and sustainability disclosures, in light of the new information, if the provision of updated estimates and disclosures is possible with reasonable effort. If this is not possible with reasonable effort, the undertaking shall provide narrative information describing the conditions existing at period end and the possible implications on the sustainability statement.

6.4 Changes in preparation or presentation of sustainability information

92. The definition and calculation of ***metrics***, including metrics used to set ***targets*** and monitor progress towards them shall be consistent over time (only in case targets have been specifically set by the undertaking). Unless it is not possible with a reasonable effort to do so, the undertaking shall provide restated comparative figures (see Section 2 Disclosure Requirement 2 *(BP-2)*) when it has:

    (a) redefined or replaced a metric or target or else; and

    (b) identified new information in relation to the estimated figures disclosed in the preceding period, and the new information provides evidence of circumstances that existed in that period.

6.5 Reporting errors in prior periods

93. The undertaking shall correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is not possible with a reasonable effort to do so. This requirement does not extend to reporting periods before the first year of application of ESRS LSME by the undertaking.

94. Prior period errors are omissions from, and misstatements in, the undertaking's ***sustainability statement*** for one or more prior periods. Such errors arise from a failure to use, or from the misuse of, reliable information that:

    (a) was available when the management report – which includes the sustainability statement for those periods – was authorised for issuance and that

    (b) could reasonably be expected to have been obtained and considered in the preparation of sustainability disclosures included in these reports.

95. Such prior period errors include the effects resulting from mathematical mistakes, mistakes in applying the definitions used for ***metrics***, oversights or misinterpretations of facts, and fraud.

96. Potential errors in a current period discovered in that same period are corrected before the management report is authorised for issuance. However, material errors are sometimes discovered only in a subsequent period.

97. If it is not possible with reasonable effort to determine the effect of an error on all prior presented periods, the undertaking shall restate the comparative information to correct the error from the earliest practicable date. When correcting disclosures for a prior period, the undertaking shall not use hindsight either in making assumptions about what the management's intentions would have been in a prior period or in estimating the amounts disclosed in a prior period. This requirement applies to correction of both backward-looking and forward-looking disclosures.

98. Corrections of errors are distinguished from changes in estimates. Estimates are to be revised as soon as additional information becomes available (see Section 2 Disclosure Requirement 2 *(BP-2)*).

6.6 Classified and sensitive information, and information on intellectual property, know-how or results of innovation

99. The undertaking is not required to disclose ***classified information*** or ***sensitive information*** even if such information is considered material.

100. When disclosing information about its ***strategy***, ***plans*** and ***actions***, where a specific piece of information corresponding to intellectual property, know-how or the results of innovation is relevant to meet the objective of a Disclosure Requirement, the undertaking may nevertheless omit that specific piece of information if it:

    (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question:

    (b) has commercial value because it is secret; and

    (c) has been subject to reasonable steps taken by the undertaking to keep it secret.

101. If the undertaking omits ***classified information*** or ***sensitive information*** or a specific piece of information corresponding to intellectual property, know-how or the results of innovation because it meets the previous paragraph's criteria, it shall comply with the disclosure requirement in question by disclosing all other required information.

102. The undertaking shall make reasonable effort to ensure that, beyond the omission of the specific ***classified information*** or ***sensitive information*** or of the specific piece of

information corresponding to intellectual property, know-how or the results of innovation, the overall relevance of the disclosure in question is not impaired.

6.7 Matters in the course of negotiation

103. The undertaking is not required to disclose information related to impending developments or matters in the course of negotiation, even if such information is considered material.

104. This exemption could apply, in exceptional cases, where, in the duly justified opinion of the members of the ***administrative, management and supervisory bodies***, acting within the competences assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking. The exception is applicable provided that the omission does not prevent a fair and balanced understanding of the undertaking's development, performance, and position, and the impact of its activity.

105. If the undertaking decides to omit such information, it shall simply state that is the case, indicating which information / datapoints has been omitted.

7. Structure of the sustainability statement

106. This chapter provides the basis for the presentation of the information about ***sustainability matters*** prepared in compliance with the CSRD and this [draft] Standard (i.e., ***sustainability statement***) within the undertaking's management report. Such information is presented in a dedicated section of the management report identified as the sustainability statement. Appendix F *Example of structure of ESRS sustainability statement* of this Section provides an illustrative example of a sustainability statement structured according to the requirements laid out in this chapter.

7.1 Content and structure of the sustainability statement

107. Sustainability information shall be presented:

    (a) in a way that allows for a distinction between information required by disclosures in this [draft] Standard and other information included in the management report and

    (b) under a structure that facilitates access to and understanding of the sustainability statement, both in human and machine-readable formats.

108. Except for the possibility to incorporate information by reference as defined in section 8.1 *Incorporation by reference* of this section, the undertaking shall report all the applicable disclosures (sector-agnostic and entity-specific) required by this [draft] Standard as per chapter 1 of this Section, within a single section of the management report. The undertaking shall present the information in a way that allows for a distinction between information required by disclosures in this [draft] Standard and other information included in the management report (such as information pursuant to Article 8 of Regulation (EU) 2020/852, as specified in the paragraph below).

109. In its ***sustainability statement***, the undertaking shall report the disclosures pursuant to Article 8 of Regulation (EU) 2020/852 of the European Parliament and the Council[6] and Commission Delegated Regulations that specify the content of those disclosures. The undertaking shall ensure that these disclosures are separately identifiable within the sustainability statement. Disclosures related to each of the environmental objectives defined in the Taxonomy Regulation shall be presented together in a clearly identifiable part of the environmental section of the sustainability statement. These disclosures are not

[6] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

subject to the provisions of ESRS with the exception of this paragraph and the first sentence of paragraph 111 of this Standard.

110. If the undertaking includes in its individual ***sustainability statement*** additional disclosures stemming from *(i)* other legislation – which requires the undertaking to disclose sustainability information – or *(ii)* generally accepted sustainability reporting standards and frameworks – including non-mandatory guidance and sector-specific guidance published by other standard-setting bodies (such as technical material issued by the International Sustainability Standards Board or the Global Reporting Initiative) – such disclosures shall:

(a) be clearly identified with an appropriate reference to the related legislation, standard or framework (see Section 2 Disclosure Requirement 2 (BP-2), paragraph 11); and

(b) meet the requirements set for qualitative characteristics of information specified in chapter 2 of this section.

111. The undertaking shall structure its ***sustainability statement*** in four parts in the following order: (i) general information, (ii) environmental information (including disclosures pursuant to Article 8 of Regulation (EU) 2020/852), (iii) social information and (iv) governance information. While respecting the provision in this Section (chapter 3.6 *Material impacts or risks arising from actions to address sustainability matters* of this [draft] Standard), when information provided in one part also covers information to be reported in another, the undertaking may refer in one part to information presented in another, thereby avoiding duplications. The undertaking may apply the detailed structure illustrated in *Appendix F* of this Section.

112. Where the undertaking develops material entity-specific disclosures, it shall report those disclosures alongside the most relevant disclosure in this [draft] Standard.

8. Linkages with other parts of corporate reporting and connected information

113. The undertaking shall provide information that enables users of its ***sustainability statement*** to understand the connections between different pieces of information in the statement, and the connections between the information in the sustainability statement and other information that the undertaking discloses in other parts of its corporate reporting.

8.1 Incorporation by reference

114. Provided that the conditions in paragraph 115 are met, information prescribed by a Disclosure Requirement of these [draft] Standard – including a specific datapoint prescribed by it – may be incorporated in the ***sustainability statement*** by reference to:

(a) another section of the management report;

(b) the financial statements;

(c) the corporate governance statement (if it is not part of the management report);

(d) the remuneration report required by Directive 2007/36/EC of the European Parliament and of the Council[7];

(e) the universal registration document as referred to in Article 9 of Regulation 2017/1129[8]; and

[7] Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies (OJ L 184, 14.7.2007, p. 17).
[8] Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (OJ L 168, 30.6.2017, p. 12).

(f) public disclosures under Regulation 575/2013 of the European Parliament and of the Council (Pillar 3 disclosures)[9].

If the undertaking incorporates by reference information from Pillar 3 disclosures, it shall ensure that the information matches the reporting scope used for the ***sustainability statement*** by complementing the incorporated information with additional elements as necessary.

115. The undertaking may incorporate information by reference to the documents, or part of the documents, listed in paragraph 115 provided that the disclosures incorporated by reference:

(a) constitute a separate element of information and are clearly identified in the relevant document as addressing the relevant Disclosure Requirement or the relevant specific datapoint prescribed by a Disclosure Requirement;

(b) are published before or at the same time as the management report;

(c) are in the same language as the sustainability statement;

(d) are subject to at least the same level of assurance as the sustainability statement; and

(e) meet the same technical digitalisation requirements as the sustainability statement.

116. Provided that these conditions established in paragraph 115 are met, information prescribed by a Disclosure Requirement of this [draft] Standard – including a specific datapoint prescribed by a Disclosure Requirement – may be incorporated into the ***sustainability statement*** by reference to the undertaking's report prepared according to EU Eco-Management and Audit Scheme (EMAS) Regulation (EU) No. 1221/2009[10]. In this case, the undertaking shall ensure that the information incorporated by reference is produced using the same basis for preparation of ESRS information, including reporting scope and treatment of ***value chain*** information (including subsidiaries, as specified in paragraph 61 of this section).

117. In the preparation of its ***sustainability statement*** using incorporation by reference, the undertaking shall consider the overall cohesiveness of the reported information and ensure that the incorporation by reference does not impair the readability of the sustainability statement. *Appendix G: Example of incorporation by reference* of this [draft] Standard offers an illustrative example of incorporation by reference (See Section 2 Disclosure Requirement 2 *(BP-2)*).

8.2 Connected information and connectivity with financial statements

118. When the undertaking also prepares financial statements and other regulatory reports, the information provided in its sustainability report following this [draft] Standard:

(a) shall be coherent with what is reported in the financial statements for the same period; and

(b) may be presented in a way that facilitates the understanding of the linkages that exist with the information reported in its financial statements, for example, by using appropriate cross-references or reconciliations.

[9] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).
[10] Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organisations in a community eco-managemenrt and audit scheme (EMAS), repealing Regulation (EC) No 761/2001 and Commission Decisions 2001/681/EC and 2006/193/EC (OJ L 342, 22.12.2009, p. 1).

119. In particular, as this standard follows an individual perspective (see paragraph 3), the undertaking may explain how the monetary amounts presented in its sustainability statement relate to its individual and/or consolidated financial statements.

120. Topical Sections of this [draft] Standard may define requirements in order to include reconciliations or to illustrate consistency of data and assumptions for specific Disclosure Requirements. In such cases, the requirements in these Sections shall prevail.

9. Transitional provisions

9.1 Transitional provision related to chapter 4: Value chain

121. For the first three years of its sustainability reporting under this [draft] Standard, for undertakings that report starting from 2026, and for the first year for undertakings that report starting from 2028, in order to account for the difficulties that it may encounter when gathering information from actors throughout its **value chain,** the undertaking:

    (a) may limit upstream and downstream value chain information to information available in-house, such as data already available to the undertaking and publicly available information – when disclosing information on policies, actions and targets in accordance with Section 3 of these [draft] Standard; and

    (b) is not required to include upstream and downstream value chain information except for datapoints derived from other EU legislation as listed in Section 2 Appendix B, when disclosing metrics.

9.2 Transitional provision related to section 6.1 Presenting comparative information

122. To ease the first-time implementation of this [draft] Standard, the undertaking is not required to disclose the comparative information required by this Section, chapter *6.1 Presenting comparative information,* in the first year of preparation of the ***sustainability statement*** under this [draft] Standard. For disclosure requirements listed in *Appendix C: List of phased-in Disclosure Requirements,* this transitional provision applies with reference to the first year of mandatory application of the phased-in disclosure requirement.

9.3 Transitional provision: List of Disclosure Requirements that are phased-in for [draft] Standard to year two or subsequent years

123. *Appendix C: List of phased-in Disclosure Requirements* in this Section sets phase-in provisions for the Disclosure Requirements or datapoints of Disclosure Requirements in this [draft] Standard, which may be omitted, or which are not applicable in the first year(s) of preparation of the ***sustainability statement*** under this [draft] Standard. The phased-in provisions are applicable starting from the first reporting period of the undertaking that report using this [draft] standard from 2026 reporting. For undertakings that issue their first sustainability statement according to this Standard from 2028, the phased-in provisions are reduced by two years. Disclosure requirements or datapoints that are subject to phased-in provisions are marked with the following symbol (Ph-in).

Appendix A: Application Requirements

This appendix is an integral part of this [draft] Standard and has the same authority as the other parts of the [draft] Standard.

Application requirements – Entity-specific disclosures

AR 1. Entity-specific disclosures shall enable ***users*** to understand the undertaking's ***impacts*** and ***risks*** (and opportunities) in relation to environmental, social or governance matters.

AR 2. When developing entity-specific disclosures, the undertaking shall ensure that:

(a) the disclosures meet the qualitative characteristics of information set out in chapter 2 *Qualitative characteristics of information* and that

(b) its disclosures include, where applicable, all material information related to the reporting areas of governance, strategy, ***impact*** and ***risk*** (and opportunity) management and ***metrics*** and ***targets*** (see Section 2 chapters 2 to 4, Section 3 DR 11 and DR 12, and the topical sections of this [draft] Standard).

AR 3. When determining the usefulness of ***metrics*** for inclusion in its entity-specific disclosures, the undertaking shall consider whether:

(a) its chosen performance metrics provide insight into:

i. how effective its practices are in reducing negative outcomes for people and the environment (regarding impacts) and/or

ii. the likelihood that its practices result in ***financial effects*** on the undertaking (regarding ***risks*** and opportunities on a voluntary basis);

(b) the measured outcomes are sufficiently reliable, meaning whether they do not involve an excessive number of assumptions or unknowns that would otherwise render the metrics too arbitrary to constitute a faithful representation; and whether it has provided sufficient contextual information to interpret performance metrics appropriately.

AR 4. When developing its entity-specific disclosures, the undertaking shall carefully consider:

(a) comparability between undertakings while still ensuring relevance of the information provided, recognising that comparability may be limited for entity-specific disclosures, and

(b) comparability over time: consistency of methodologies and disclosures is a key factor for achieving comparability over time.

AR 5. The need for entity-specific disclosures is particularly important for financial undertakings subject to [draft] ESRS LSME as the sustainability matters in these sectors are very specific. These additional disclosures may derive from sustainable finance legislation or generally accepted sustainability reporting standards and frameworks applicable to financial actors, including non-mandatory standards and guidance. Future sector ESRS dedicated to the financial sector will further enhance reporting standards.

AR 6. When developing entity-specific disclosures (which may cover also sector-specific information), the undertaking may need to collect information from an actor in its value chain (see paragraph 15 of this section). In this case, when, after making reasonable efforts, the undertaking cannot collect information directly from the relevant actor, it may rely on indirect sources (sector-average data, sample analyses, market and peer groups data, other proxies, etc.). Estimates and proxies may currently be the only available solution to collect information in certain cases due to the unreasonable efforts required to collect data. Examples include tier 2 or tier N suppliers; tier 1 suppliers when they are excessively high in number; and customers when they are not end users (e.g., when the undertaking delivers products or services that are further transformed before contributing to the delivery of products and services to the end users).

AR 7. For example, the undertaking has assessed that an actor in its value chain, extracting commodities used as components of the undertaking's products, is associated with a material impact on working conditions, which is, according to a benchmark analysis, relevant impact for the undertaking's sector. This material impact is not sufficiently covered by this Standard and therefore there is a need to define an entity specific-disclosure. In this case, the undertaking may be able to arrange site audits to collect information directly from its supplier. However, if those actions to obtain primary data and information are not possible after reasonable effort, the undertaking may rely on sector or country data estimating those impacts (e.g., negative impacts on working conditions) in the location of the mining activities.

Application requirements – Double materiality

Stakeholders and their relevance to the materiality assessment process

AR 8. In addition to the categories of ***stakeholder*** listed in paragraph 29, common categories of ***stakeholders*** are ***employees*** and other workers, ***suppliers***, ***consumers***, ***customers***, ***end-users***, local communities and persons in vulnerable situations, and public authorities including regulators, supervisors and central banks.

AR 9. Nature may be considered as a silent ***stakeholder***. In this case, ecological data and data on the conservation of species may support the undertaking's ***materiality*** assessment.

AR 10. If the undertaking has engaged with affected ***stakeholders***, its ***materiality*** assessment is informed by the dialogue with them. The undertaking may engage with affected ***stakeholders*** or their representatives (such as ***employees*** or trade unions), along with users of sustainability reporting and other experts, to provide input or feedback on its conclusions regarding its material ***impacts*** and ***risks*** (and opportunities).

Double materiality

AR 11. In general, for double materiality the starting point is the assessment of impacts, although there may also be ***material risks*** (and ***opportunities***) that are not related to the undertaking's ***impacts***. A sustainability impact may be financially material from inception or become financially material when it could reasonably be expected to affect the undertaking's financial position, financial performance, cash flows, its access to finance or the cost of capital over the short-, medium- or long-term. Impacts are captured by the ***impact materiality*** perspective regardless of whether or not they are financially material.

AR 12. If there is a high number of actors in the ***value chain*** (including subsidiaries, as specified in paragraph 61 of this section), when performing its materiality assessment the undertaking is not expected to account for each and every one of those individual actors. However, in the first instance it may assess the value chain at a more aggregated level, identifying general areas where the likelihood of material impacts and risks (and opportunities) is the greatest. For example, this could be done by main groups of suppliers depending on their operating contexts and based on the characteristics of the business model and/or based on specific activities, business relationships, geographies or other factors giving rise to the heightened likelihood of adverse impacts and financial risks (see Section 2 IR – *Processes to identify and assess material impacts and risk,* paragraph 49 a). A more granular approach is expected to be applied in case specific sustainability issues are identified – for instance, due to size/geography or the nature of products/services. In this case, the undertaking is expected to focus on the specific actor(s) involved.

Assessment of impact materiality

AR 13. To the extent that the undertaking adopts content from the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises in its impact management processes, its impact ***materiality*** assessment is informed by the due diligence[11] process. Due diligence is the process by which undertakings identify, prevent, mitigate and account for how they address the actual and potential impacts on people and the environment connected with their business.

AR 14. Impacts connected with the undertaking`s upstream and downstream value chain, may concern direct business relationships (TIER 1 actors, such as suppliers, clients, subsidiaries). However, the undertaking may find itself connected with impacts that occur in more distant parts of the value chain (TIER 2 actors and beyond). This may, for instance, be the case when the undertaking or its direct suppliers are using commodities or components whose production is connected with severe systemic impacts, such as palm oil or coltan. Similarly, the undertaking may be connected with impacts that result from the use of its products, such as oil and gas derived from fossil fuels, plastics. In this case, it may be involved with microplastics pollution, cigarettes, or pesticides.

AR 15. In assessing ***impact materiality*** and determining the material matters that are to be reported, the undertaking shall consider the following three steps:

(a) understanding the context in relation to its impacts including its activities, business relationships (including subsidiaries, as specified in paragraph 61 of this section) and ***stakeholders***;

(b) identifying actual and potential impacts by engaging with relevant ***stakeholders*** and experts. In this step, the undertaking may rely on scientific and analytical research on impacts on ***sustainability matters***; and

(c) assessing the materiality of its actual and potential impacts and determining the matters that are material. In this step, the undertaking shall adopt thresholds to determine which of the impacts will be covered in its ***sustainability statement.***

Characteristics of severity

AR 16. Severity is determined by the following factors:

(a) scale: how grave the negative impact is on people or the environment;

(b) scope: how widespread the negative impacts are. In the case of environmental impacts, the scope may be understood as the extent of environmental damage or a geographical perimeter. In the case of impacts on people, the scope may be understood as the number of people adversely affected; and

(c) irremediable character: whether and to what extent the negative impacts could be remediated, i.e., by restoring the environment or affected people to their prior state.

AR 17. Any one of these three characteristics (scale, scope and irremediable character) can render a negative impact severe. In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

Impacts connected with the undertaking

AR 18. Consider the following cases by way of illustration:

(a) if the cobalt in the undertaking’s products has been mined using ***child labour***, the negative impact (i.e., ***child labour***) is connected with the undertaking’s products through the tiers of ***business relationships*** in its upstream ***value chain***. These relationships include the smelter and minerals trader as well as the mining enterprise that uses ***child labour***; and

(b) if the undertaking provides financial loans to an enterprise for business activities which, in breach of agreed standards, result in the contamination of water and land

[11] This process is described in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

surrounding the operations, this negative impact is then connected to the undertaking through its relationship with the enterprise that it provides the loans to.

Assessment of financial materiality

AR 19. The following are examples of how impacts and ***dependencies*** constitute sources of ***risks*** (or opportunities):

(a) when the undertaking's ***business model*** depends on a natural resource – for example, water – it is likely to be affected by changes in the quality, availability and pricing of that resource;

(b) when the undertaking's activities result in negative impacts on, e.g., local communities, the activities could become subject to stricter government regulation, and/or the impact could trigger consequences of a reputational nature. These have negative effects on the undertaking's brand, and higher recruitment costs might arise; and

(c) when the undertaking's business partners face material ***sustainability-related risks***, the undertaking could be exposed to related consequences as well.

AR 20. The identification of ***risks*** (and opportunities) that affect, or could reasonably be expected to affect, the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term is the starting point for the ***financial materiality*** assessment. In this context, the undertaking shall consider:

(a) the existence of ***dependencies*** from natural and social resources as sources of ***financial effects*** (see paragraph 58 of this section) and

(b) their classification as sources of risks (contributing to negative deviation in future expected cash inflows, or increase in deviation in future expected cash outflows and/or negative deviation from an expected change in capitals not recognised in the financial statements).

AR 21. Once the undertaking has identified its ***risks*** (and opportunities), it shall determine which of them are material for reporting purposes. This shall be based on a combination of *(i)* the likelihood of occurrence and *(ii)* the potential size of ***financial effects*** determined on the basis of appropriate thresholds. In this step, it shall consider the contribution of those risks to financial effects in the short-, medium- and long-term based on

(a) ***scenarios***/forecasts that are deemed likely to materialise; and

(b) potential financial effects related to ***sustainability matters*** deriving either from situations with a below the more-likely-than-not threshold or assets/liabilities not (yet) reflected in financial statements. This includes:

i. potential situations that, following the occurrence of future events, may affect cash flow generation potential;

ii. capitals that are not recognised as assets from an accounting and financial reporting perspective but that have a significant influence on financial performance, such as natural, intellectual (organisational), human, social and relationship capitals; and

iii. possible future events that may influence the evolution of such capitals.

Sustainability matters to be included in the materiality assessment

AR 22. When performing its ***materiality*** assessment, the undertaking shall consider the following list of ***sustainability matters*** (topic, sub-topic and sub-sub-topic). If, as a result of the undertaking's materiality assessment (see Section 2 Disclosure Requirement 9 *(IR-1)*), a given sustainability matter in this list is assessed to be material, the undertaking shall report on it according to the corresponding Disclosure Requirements. Using this list is not a substitute for the process of determining material matters. This list is only meant to serve as a tool to support the undertaking's materiality assessment. The undertaking still needs to consider its own specific circumstances when determining its material matters. Where necessary according to paragraph 14, the undertaking shall also develop entity-specific disclosures on material ***impacts*** and ***risks*** not covered in this [draft] Standard.

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
	Topic	**Sub-topic**	**Sub-subtopics**
[draft] ESRS E1	Climate change[12]	• Climate change adaptation • Climate change mitigation • Energy	
[draft] ESRS E2	Pollution	• Pollution of air • Pollution of water • Pollution of soil • Pollution of living organisms and food resources • Substances of concern • Subtances of very high concern • Microplastics	
[draft] ESRS E3	Water and marine resources	• Water • Marine resources	• Water consumption • Water withdrawals • Water discharges • Water discharges in the oceans • Extraction and use of marine resources
[draft] ESRS E4	Biodiversity and ecosystem s	• Direct impact drivers of biodiversity loss	• Climate Change • Land-use change, fresh water-use change and sea-use change • Direct exploitation • Invasive alien species • Pollution • Others
		• Impacts on the state of species	Examples: • Species population size • Species global extinction risk
		• Impacts on the extent and condition of ecosystems	Examples: • Land degradation • Desertification • Soil sealing
		• Impacts and dependencies on ecosystem services	
[draft] ESRS E5	Circular economy	• Resources inflows, including resource use • Resource outflows related to products and services • Waste	
[draft] ESRS S1	Own workforce	• Working conditions	• Secure employment • Working time • Adequate wages

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
			• Social dialogue • Freedom of association, the existence of works councils and the information, consultation and participation rights of workers • Collective bargaining, including rate of workers covered by collective agreements • Work-life balance • Health and safety
		• Equal treatment and opportunities for all	• Gender equality and equal pay for work of equal value • Training and skills development • Employment and inclusion of persons with disabilities • Measures against violence and harassment in the workplace • Diversity
		• Other work-related rights	• Child labour • Forced labour • Adequate housing • Privacy
[draft] ESRS S2	Workers in the value chain	• Working conditions	• Secure employment • Working time • Adequate wages • Social dialogue • Freedom of association, including the existence of work councils • Collective bargaining • Work-life balance • Health and safety
		• Equal treatment and opportunities for all	• Gender equality and equal pay for work of equal value • Training and skills development • The employment and inclusion of persons with disabilities

[12] The undertaking shall include all the information prescribed in ESRS E1 regardless of the outcome of the materiality assessment.

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
			• Measures against violence and harassment in the workplace • Diversity
		• Other work-related rights	• Child labour • Forced labour • Adequate housing • Water and sanitation • Privacy
[draft] ESRS S3	Affected communities	• Communities' economic, social and cultural rights	• Adequate housing • Adequate food • Water and sanitation • Land-related impacts • Security-related impacts
		• Communities' civil and political rights	• Freedom of expression • Freedom of assembly • Impacts on human rights advocates
		• Rights of indigenous communities	• Free, prior and informed consent • Self-determination • Cultural rights
[draft] ESRS S4	Consumers and end-users	• Information-related impacts for consumers and/or end-users	• Privacy • Freedom of expression • Access to (quality) information
		• Personal safety of consumers and/or end-users	• Health and safety • Security of a person • Protection of children
		• Social inclusion of consumers and/or end-users	• Non-discrimination • Access to products and services • Responsible marketing practices
[draft] ESRS G1	Business conduct	• Corporate culture • Protection of whistle-blowers • Animal welfare • Political engagement • Management of relationships with suppliers including payment practices	
		• Corruption and bribery	• Prevention and detection, including training • Incidents

Level of disaggregation

AR 23. Considering the less complexity of the undertakings in scope of this [draft] standard compared to large undertakings, disaggregation of impacts and risk is oftentimes not needed. A disaggregation is needed, as required by paragraph 60 in this section, when, for example:

(a) an undertaking operates in two different sectors, road transport and IT, with different impacts and risks. In this case the undertaking shall disaggregate them by these two sectors to better contextualise its impacts and risks and allow a better understanding of them.

(b) an undertaking operates in different countries with significant variations in terms of impacts and risks due to a different context (i.e. different environmental or social conditions, different legislative regime, etc.). In this case the undertaking shall disaggregate them by countries to better contextualise its impacts and risks and allow a better understanding of them.

(c) an undertaking operates in different sites with associated impacts or risks highly dependent on the specific location of a site (such as different social or environmental conditions) or an a particular asset utilised in that particular site. In this case the undertaking shall disaggregate them by sites to better contextualise its impacts and risks and allow a better understanding of them.

Application requirements – Reporting undertaking and value chain

AR 24. When assessing material impacts and risks (and opportunities) connected with its business relationships, all material impacts and risks (both could be related to direct and/or indirect business relationships across upstream and downstream value chain) are to be considered. Where reporting undertakings have a large number of business relationships in their value chains it may identify general areas where impacts and risks are severe and / or likely, recalling that in the case of a potential negative human rights impact, the severity takes precedence over its likelihood. For example:

(a) high risk impact areas whether due to operating contexts, involvement with particularly high risk operations, products or services or other relevant considerations which likely heighten the exposure to severe actual and potential impacts (therefore generating connections to impacts on people and/or environment, which can in turn be sources of risks and opportunities); or

(b) those actors with respect to whom the business model of the undertaking shows key dependencies in terms of products or services (therefore generating risks and opportunities for the undertaking).

AR 25. To illustrate the approach in relation to subsidiaries (as defined in paragraph 61), consider an LSME (which is a financial holding) parent company of a small / medium group (as defined in the Accounting Directive) with two subsidiaries: subsidiary “A” is active in the transport sector and subsidiary “B” is active in the real estate sector. In this case, the LSME, based on the knowledge of the risks and impacts potentially associated with its subsidiaries, has decided to include those in its materiality assessment. The results of this assessment indicated that the two subsidiaries are associated with two material impacts (not directly associated with the LSME own operations which are mainly administrative and financial activities). In particular,

(c) subsidiary “A”: due to its activity in the transport sector is associated with a material impact on working conditions of its drivers (i.e. driver fatigue, working time, etc)

(d) subsidiary “B”: due to its activity in the real estate sector is associated with a material impact on energy consumption related to the building it managed.

Therefore, considering these results, the LSME shall also disclose in its sustainability statement the relevant information associated with subsidiary "A" and subsidiary "B" on their material impacts.

AR 26. The undertaking, when material risks and impacts (and opportunities) are associated with its subsidiaries, may disclose the related information separately, as a sub-total, indicating to which subsidiary the information pertains. For instance, considering the above example, the undertaking shall disclose the total energy consumption (LSME and subsidiary B) and may indicate separately the amount pertaining to subsidiary "B", as illustrated below:

Energy consumption and mix	**Year N**
(1) Non-renewable energy consumption (MWh)	160
- of which associated to subsidiaries	*140*
(2) Consumption from renewable sources (MWh)	200
- of which associated to subsidiaries	*180*
Total energy consumption (MWh)	360
- of which associated to subsidiaries	*320*

AR 27. To illustrate the approach included in paragraph 65 of this section, consider an undertaking, P, that produces chairs with wood sourced from another undertaking that is classified as an associate (A) for financial reporting. P holds an equity share in A of 30%. P buys 10 tons of wood from A to produce its chairs. P will treat A in the same way as any other supplier when considering the impacts connected with the wood purchased from A. Therefore, in this case, the impacts are related to the 10 tons of wood purchased rather than estimating its impacts by using its equity share in A.

4.2 Application requirements – Estimation using sector averages and proxies

AR 28. When, as required by paragraph 61 of this Section, collecting ***value chain*** information is not possible with reasonable effort, the undertaking shall estimate the information to be reported using all reasonable and supportable information. This includes, but is not limited to, internal and external information such as data from indirect sources, sector-average data, sample analyses, market and peer groups data, other proxies or spend-based data.

AR 29. When the LSME has a large number of actors in its upstream or downstream ***value chain*** (including subsidiaries), it may not be able after making a reasonable effort to collect direct data from them when such data are either indispensable input to the materiality assessment (see paragraph 47 of this Section) or information necessary in order to prepare disclosures which include value chain information (see paragraph 61 of this Section). In this case, the LSME will use proxies or sector data under the provisions of *BP-2 – Disclosures in relation to specific circumstances*.

AR 30. Subject to the provisions set out in the Disclosure Requirements of this [draft] Standard, the LSME is expected to provide explanations of its efforts if such efforts are in place (and of the extent of the effectiveness of such efforts) to influence the practices of the actors in its upstream and downstream ***value chain*** (such as developing products that are maximally recyclable and proposing Ito ***consumers*** or ***end-users***) and to contribute to the elaboration of proxies or sector data.

AR 31. When extending the information about the reporting undertaking to include ***value chain*** information, in accordance with paragraph 61, the elements of the value chain with material ***impacts*** and risks are reported on. For instance, based on the materiality assessment, the undertaking may consider the matters working conditions and ***affected communities*** to be material for a group of farmers, while the CO_2 ***emissions*** may be considered material in other parts of the value chain.

Appendix B: List of phased-in Disclosure Requirements

This appendix is an integral part of Section 1 General requirements of this [draft] Standard and has the same authority as the other parts of the Standard. It should be read in conjunction with Section 2 of this [draft] Standard paragraph 15 "*Use of phase-In provisions in accordance with Appendix B of Section 1*". Disclosure requirements or datapoints that are subject to phased-in provisions are marked with the following symbols:

(a) "Ph-in 1": possible omission for the first year of preparation of the undertaking`s sustainability statement;

(b) "Ph-in 2": possible omission for the two years of preparation of the undertaking`s sustainability statement; and

(c) "Ph-in 3": possible omission for the two years of preparation of the undertaking`s sustainability statement.

If the phased-in provision depends on not exceeding the average number of 500 employees, at the above symbols is added "500" (i.e. "Ph-in 1 - 500").

If an undertaking opts-out for the period defined in CSRD article 19 a) 7[13], it may benefit from phase-in periods for the remaining years while the phase-in is still applicable. For instance, if an undertaking opts-out only for one year and is issuing its first sustainability report for financial year 2027 (instead of 2026), then it may benefit of phase-ins for the remaining years:

(a) in the case of phase-ins applicable for two years, it may benefit for the remaining one year; and

(b) in the case of phase-ins applicable for three years, it may benefit for the remaining two years.

[13] For financial years starting before 1 January 2028, by way of derogation from paragraph 1 of this Article, small and medium-sized undertakings which are public-interest entities as defined in point (a) of point (1) of Article 2 may decide not to include in their management report the information referred to in paragraph 1 of this Article. In such cases, the undertaking shall, nevertheless, briefly state in its management report why the sustainability reporting was not provided.

Phase-ins applicable for one year

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
	DR-7	Material impacts, risks and opportunities and their interaction with strategy and business model	The undertaking may omit the information prescribed by Section 2 Disclosure Requirement 7 (*SBM-3*) paragraph 28 (d) (anticipated financial effects) for the first year of preparation of its sustainability statement.
	E1-2	Gross Scopes 1, 2, 3 and total GHG emissions	Undertakings not exceeding on their balance sheet dates the average number of 500 employees during the financial year (on a consolidated basis where applicable) may omit the datapoints on Scope 3 emissions and total GHG emissions for the first year of preparation of their sustainability statement.
Section 4	E6	Anticipated financial effects from material environmental-related matters (other than climate change).	The undertaking may omit the information prescribed by E6 for the first year of preparation of its sustainability statement.
Section 5	All disclosure requirements related to own workforce	All disclosure requirements related to own workforce	Undertakings exceeding on their balance sheet dates the average number of 500 employees during the financial year may omit the information specified in the disclosure requirements related to own workforce for the first year of preparation of their sustainability statement.
Section 5	S1-2	Characteristics of non-employee workers in the undertaking's own workforce	The undertaking may omit reporting for all datapoints in this Disclosure Requirement for the first year of preparation of its sustainability statement.
Section 5	S1-6	Training metrics	The undertaking may omit the information required under this Disclosure Requirement for the first year of preparation of its sustainability statement.

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
Section 5	S1-7	Health and safety metrics	The undertaking may omit the data points on cases of work-related ill-health issues and on the number of days lost to injuries, accidents, fatalities and work-related health issues for the first year of preparation of its sustainability statement.
Section 5	S1-7	Health and safety metrics	The undertaking may omit reporting on non-employees for the first year of preparation of its sustainability statement.
Section 5	S1-10	Diversity metrics	The undertaking may omit the data point on percentage of employees with disabilities required in paragraph 31 (b) of this Disclosure Requirement for the first year of preparation of its sustainability statement.

Phase-ins applicable for two years

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
Section 3 and 4	All disclosure requirements related to biodiversity and ecosystems	All disclosure requirements related to biodiversity and ecosystems	Undertakings not exceeding on their balance sheet dates the average number of 500 employees during the financial year may omit the information specified in the disclosure requirements of Section 3 and 4 related to Biodiversity and ecosystems for the first two years of preparation of their sustainability statement.
Section 5	S1-6	Training metrics	The undertaking may omit the breakdown by gender required under this Disclosure Requirement for the first two years of preparation of its sustainability statement.
Sections 2 and 3	All disclosure requirements	All disclosure requirements	Undertakings not exceeding on their balance sheet dates the average number of 500 employees during the financial year may omit the information specified in the disclosure requirements and application requirements related to workers in the value chain, affected communities and consumers and end-users for the first two years of preparation of their sustainability statement.

Phase-ins applicable for three years

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
Section 4	E6	Anticipated financial effects from material environmental-related matters – Climate change	The undertaking may comply with disclosure requirements in E6 related to climate change (see paragraph 34) by reporting only qualitative disclosures for the first three years of preparation of its sustainability statement.

Appendix C: Structure of ESRS sustainability statement

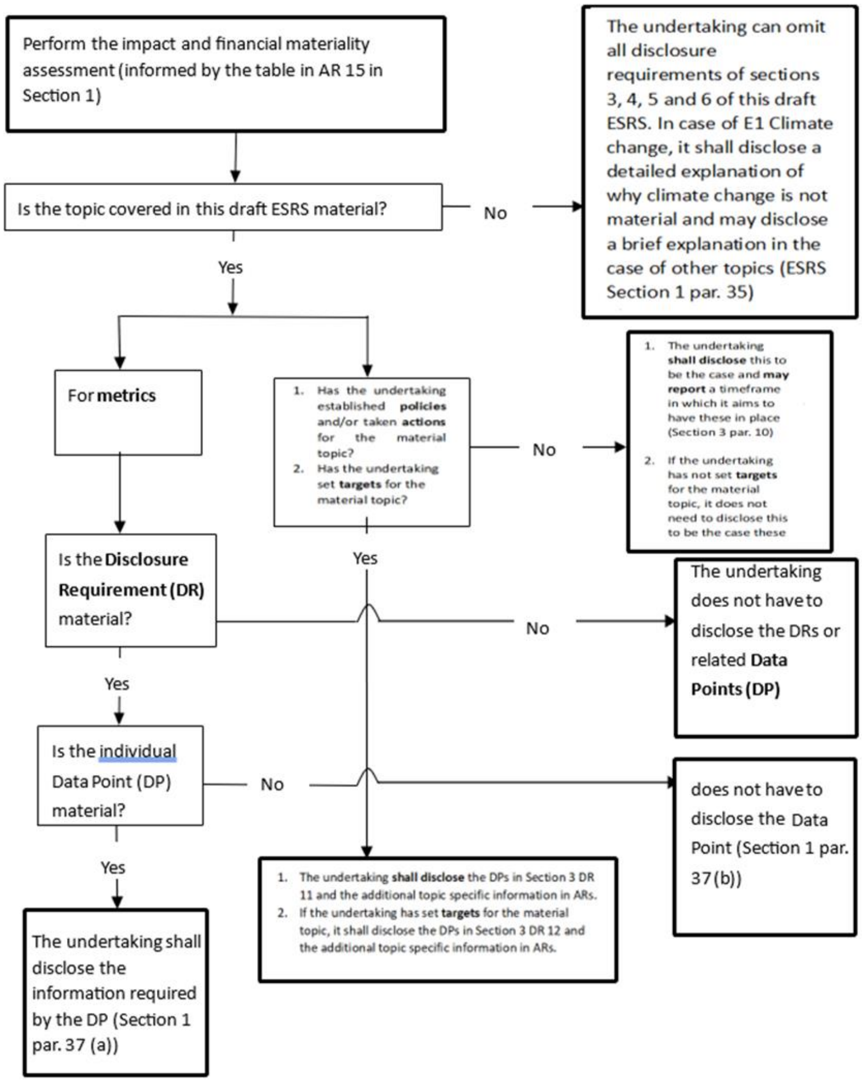
This appendix is an integral part of this [draft] LSME ESRS and has the same authority as the other parts of the Standard with respect to reporting in the four parts outlined in paragraph 115.

Part of the management report	LSME ESRS codification	Title
1. General information	Section 2	*General disclosures*, including information provided under the Application Requirements of topical ESRS listed in ESRS 2 Appendix C.
2. Environmental information	*Not applicable*	*Disclosures pursuant to Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation)*
	Sections 2, 3 and 4	*Climate change*
		Pollution
		Water and marine resources
		Biodiversity and ecosystems
		Resource use and circular economy
3. Social information	Sections 2, 3 and 5	*Own workforce*
		Workers in the value chain
		Affected communities
		Consumers and end-users
4. Governance information	Sections 2, 3 and 6	*Business conduct*

Appendix D: Flowchart for determining disclosures under LSME ESRS

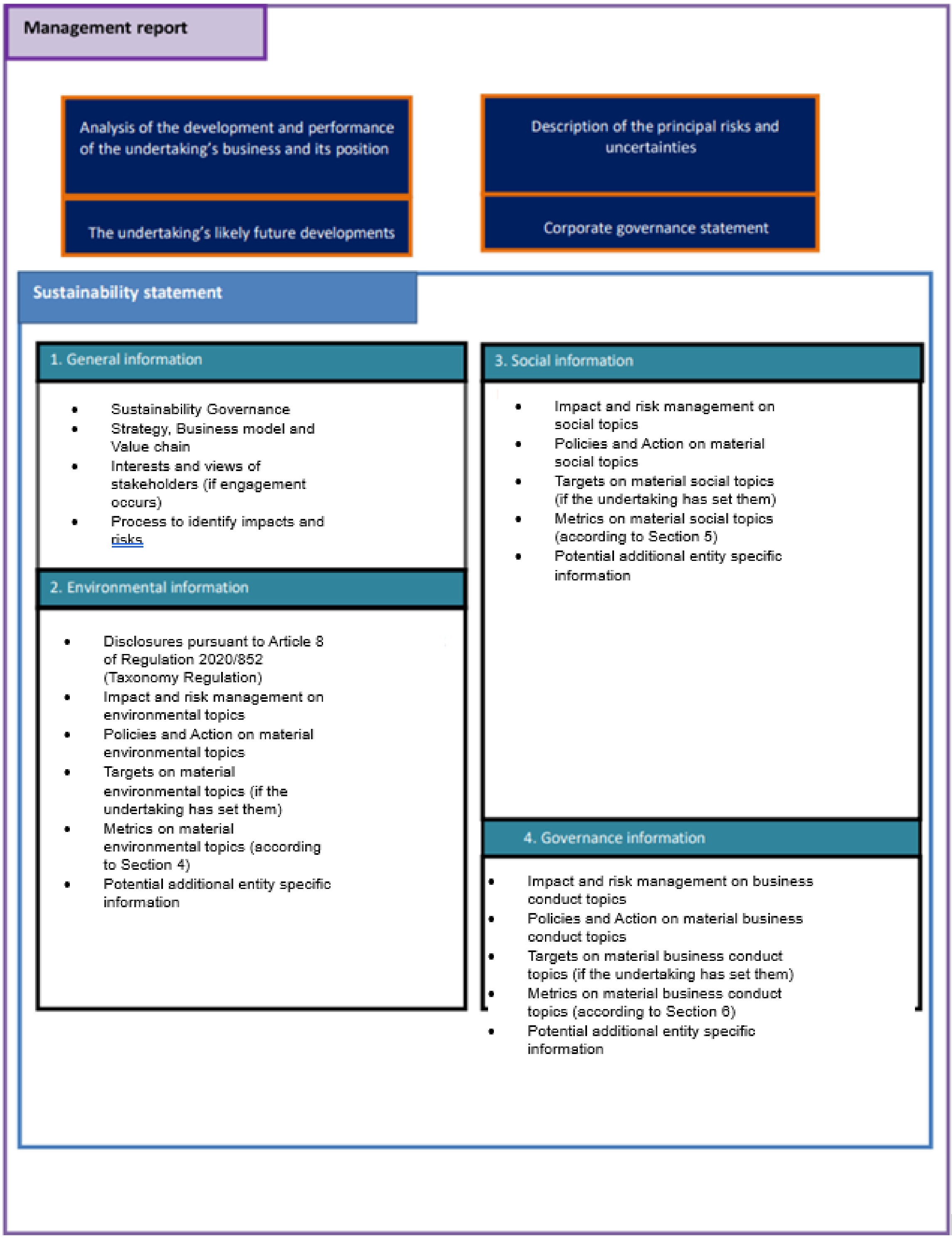
Materiality assessment is the starting point for sustainability reporting under this [draft] Standard. This appendix provides a non-binding illustration of the impact and financial materiality assessment outlined in chapter 3 of this Section. Disclosure Requirement 9 (*IR-1*) *Description of the processes to identify and assess material impacts and risks* in section 2 of this [draft] Standard includes general disclosure requirements (DR) about the undertaking's process for identifying impacts and risks and assessing their materiality. Disclosure Requirement 7 (*SMB-3*) *Material impacts and risks and their interaction with strategy and business model* of Section 2 provides general disclosures requirements on the material impact, risks and opportunities resulting from the undertaking's materiality assessment. The undertaking can omit all disclosure requirements in a topical standard if it assessed that the topic in question is not material. In that case it may disclose a brief explanation of the conclusions of the materiality assessment for that topic but shall disclose a detailed explanation in the case of E1 climate change (Disclosure Requirement 10 (*IR-2*) *Disclosure Requirements in ESRS LSME covered by the undertaking's sustainability statement* in Section 2). This [draft] Standard sets disclosure requirements, not behavioural requirements. Disclosure requirements in relation to action plans, targets, policies, scenario analysis and transition plans are proportionate because they are contingent on the undertaking having them in place, which may depend on the size, capacity, resources, and skills of the undertaking.

Note: The flowchart below does not contemplate the case in which the undertaking assesses a sustainability matter as material but it is not covered by this [draft] Standard, in which case the undertaking shall make additional entity specific disclosures (AR 1 to AR 6 in this Section).



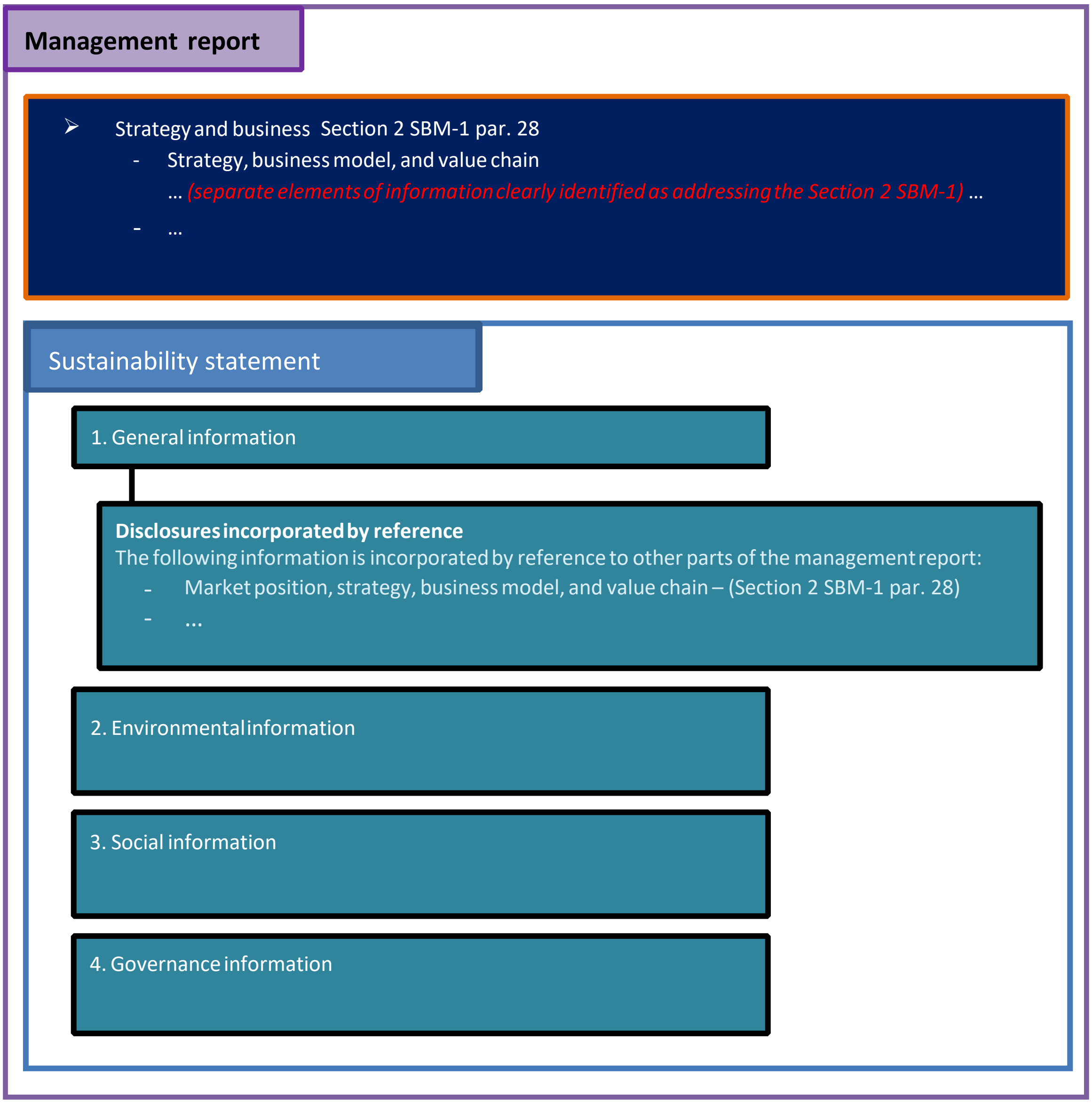
Appendix E: Example of structure of ESRS sustainability statement

This appendix complements Section 1 of this [draft] Standard. It provides a non-binding illustration of the structure of the sustainability statement outlined in chapter 7.2 of this Section. In this illustration, the undertaking has concluded that biodiversity and ecosystems, pollution and affected communities are not material.



Appendix F: Example of incorporation by reference

This appendix complements Section 1 of this [draft] Standard. It provides non-binding illustrations of incorporation by reference of another section of the management report into the sustainability statement as outlined in chapter 8.1 of this Section.



Appendix G: List of Disclosure/Application Requirements in Section 2

Disclosure/Application Requirements	To be disclosed irrespective of materiality assessment	To be disclosed 'if applicable'	To be disclosed on a voluntary basis
Section 2 - Disclosure Requirement 1 (BP-1) – General basis for preparation of the sustainability statement	x		
Section 2 - Disclosure Requirement 2 (BP-2) – Disclosures in relation to specific circumstances	x		
Section 2 - Disclosure Requirement 3 (GOV-1) – The role of the administrative, management and supervisory bodies	x		
Section 2 - Disclosure Requirement 4 (GOV-2) - Due diligence		x	
Section 2 - Disclosure Requirement 5 (SBM-1) – Strategy, business model and value chain	x		
Section 2 - Disclosure Requirement 6 (SBM-2) – Interests and views of stakeholders		x	
Section 2 - Disclosure Requirement 7 (SMB-3) - Material impacts and risks and their interaction with strategy and business model	x		
Section 2 - Voluntary Disclosure 8 (SBM-4) – Material opportunities			x
Section 2 - Disclosure Requirement 9 (IR-1) - Processes to identify and assess material impacts and risks	x		
Section 2 - Disclosure Requirement 10 (IR-2) – Topics covered by the undertaking's sustainability statement	x		