# Draft Revised LSME Section 1 – General requirements

DISCLAIMER

Text highlighted in turquoise illustrate the changes made after the discussion held at SR TEG on 19 of September.

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



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**Exposure Draft**

**DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARD**

**FOR LISTED SMES**

**(ESRS LSME ED)**

ESRS LSME ED is structured in six Sections:

Section 1 *General requirements,*
Section 2 *General Disclosures*,
Section 3 *Policies, actions and targets*,
Section 4 *Environment*,
Section 5 *Social*,
Section 6 *Business conduct*.

Each section has its progressive numbering of paragraphs and is accompanied by its appendices, as detailed in the front page of each Section in this Exposure Draft.

## ESRS LSME ED – 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: Qualitative characteristics of information*,~~
- *Appendix B~~C~~: List of phased-in Disclosure Requirements*, and
- *Appendix C~~D~~: Structure of ESRS sustainability statements*.

ESRS LSME ED Section 1 *General requirements* is accompanied by the following illustrative non-authoritative appendices:
- *Appendix D~~E~~: Flowchart for determining disclosures to be included*,
- *Appendix E~~F~~: Example of structure of ESRS sustainability statements*,
- *Appendix F~~G~~: Example of incorporation by reference*, and
-*Appendix G~~H~~: 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 Disclosures* (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~~0~~,000,000,

   (b) net turnover – EUR 50~~40~~,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*** ~~–~~ (and opportunities) in relation to environmental, social and governance ***sustainability matters*** ***(topics, sub-topics and sub-sub-topics, as defined in AR 23 of this section)***. The LSME ESRS does not require undertakings to disclose any information on environmental, social or governance ~~topics~~ 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 standard enables ***users*** of the ***sustainability statement*** to understand the undertaking's material impacts on people and environment as well as the material effects of sustainability matters on the undertaking's development, performance and position.

## 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 ~~small- and medium-sized~~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 negative ***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. The undertaking may disclose:

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

   (b) sustainability-related financial opportunities that generate or are likely to generate material financial effects in the short-, medium- or long-term.

9. 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*.

~~9.~~

## *1.2 LSME ESRS ED structure and reporting areas*

10. 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 disclosures,*

    Section 5 *Social disclosures,* and

    Section 6 *Business conduct disclosures*.

11. Section 1, Section 2 of this [draft] Standard are cross-cutting, whereas Section 3, Section 4, Section 5 and Section 6 are topical (environmental, social and business conduct disclosures, 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~~the~~ 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.

12. 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 18) offers the list of sustainability topics, subtopics and sub-subtopics (collectively, '***sustainability matters***') covered in the [draft] topical sections.

13. 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 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).

~~14.~~ In addition to the disclosure requirements laid down in the sections listed in paragraph 10, 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***. This includes sector-specific disclosures that are not covered by this [draft] sector agnostic ~~[~~standard~~]~~. When appropriate, such sector-specific disclosures may cover information about upstream and downstream value chain (including subsidiaries). Application Requirements AR 1 to AR 8~~6~~ of this section provide further guidance regarding entity-specific disclosures. ~~Pending the definition of sector-specific standards, entity-specific disclosures cover also impacts and risks (opportunities) that are likely to be material for undertakings in a specific sector and are not covered or not sufficiently covered by this Standard. This additional information about issues that are common to the undertaking's sector support the provision of relevant, faithful, comparable, understandable and verifiable information.~~ ~~When appropriate, such sector-specific disclosures may cover information about upstream and downstream value chain (including subsidiaries)~~.

14.

15. When Sector specific ESRS will be effective, in the preparation of sector disclosures to be covered by the undertaking as entity specific disclosure, the undertaking ~~shall~~ may refer to the relevant sector ESRS. ~~, in particular for disclosure that would require the undertaking to collect information from value chain counterparties.~~

~~***Entity-specific disclosures, which may also cover sector-specific information (as explained in paragraph 14), may require value chain information (including subsidiaries), but only in relation to actors in the undertaking`s value chain that are associated with material*** impact ***or*** risk ***(or opportunity) not covered or not sufficiently covered by this Standard. This means that, as explained in paragraph 67, the reporting undertaking's assessment should only focus on value chain actors that are likely to be associated with these material impacts and risks (or opportunities). It is not necessary to cover all the actors. Furthermore, as defined in chapter 4.2 of this section, there are circumstances where:***~~

~~***it is not possible, after making reasonable efforts, to collect value chain information directly from the relevant actor (see paragraph 72 of this section). In this case the undertaking may need to rely on data from indirect sources, like sector-average data, sample analyses, market and peer groups data, other proxies, etc; and***~~

~~***such information is already available in the sustainability statement or in another document iussed by the relevant actor (see paragraph 73 of this section). In this case, the underaking may rely on and refer to information contained in these documents, provided that this information meet the qualitative characteristics of information specified in chapter 2 of this Section.***~~

~~15.~~

### *1.3 Terminological~~Drafting~~ conventions*

16. In this [draft] Standard:

(a) the term '***impacts***' refers to ***sustainability-related impacts*** 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. In this [draft] Standard the term 'impacts' refers only to negative impacts unless otherwise specified, as positive impacts are disclosed on a voluntary basis; 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. See Section 2 of this [draft] Standard 41 to 43).

17. 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.

18. 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.

19. 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.

20. 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;

(c) “~~shall disclose,~~ if applicable” – refers to disclosure that has to be provided only in ~~introduces for some requirements the notion of “applicability”. In certain~~ some defined circumstances described in the requirement. ~~this concept is introduced as a filter to guide the relevance of the reporting for an undertaking. In general, w~~ When the ~~undertaking’s~~ circumstances are different from those that would trigger disclosure of that specific datapoint, no information ~~for the specific datapoint~~ 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;

“if applicable” refers as well to ~~“report if you have” – indicates that a particular information /~~ datapoints ~~should~~ to be disclosed only when an undertaking has a process in place that would trigger disclosure of that specific information. This concept is ~~introduced to better~~ different ~~differentiate~~ from “voluntary” DRs; (i.e. opportunities and positive impacts).~~”~~

~~(c)~~(d)

~~(d) “shall disclose, if applicable””~~

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.

~~When applying certain provisions defined~~Some disclosure requirements in this [draft] Standard~~, there are circumstances~~[3] ~~in which the undertaking should exercise~~ include a "reasonable effort" ~~in gathering and providing the necessary information, ensuring that the steps taken are proportional to the significance of the data~~clause. ~~However,~~This means that an undertaking is not required to provide the disclosure in question ~~when~~if the cost or effort required to obtain the necessary~~is~~ information is excessive relative to its benefits, ~~the~~

[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) in Section 2, DR E1-1 and DR E1-2 in Section 4 and DR S1-9 in Section 5 as well as Appendix C of Section 1.

~~"reasonable effort" principle allows for a more pragmatic approach. This means that while the undertaking attempts to fulfil certain reporting requirements, it is not required to undertake disproportionately exhaustive or costly measures if the resulting information would not materially enhance~~ i.e., if it does not make a material difference to the decision-making ~~for~~by users of the ESRS statement.

The "reasonable effort" principle ~~may~~ depends on the degree of the undertaking's exposure to impacts and risks, its ~~available skill, capabilities~~capacities and resources and the benefits of the resulting information for users of ESRS statements. 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".

~~The consideration of whether the effort to obtain the required information is reasonable or not depends on 'management's judgement of the costs and benefits from applying that requirement. The management's judgement will change over time, proportionately with an entity's evolving capabilities and resources.~~

## 2. Qualitative characteristics of information

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

(a) ~~the fundamental qualitative characteristics of information, i.e., relevance and faithful representation, and~~ 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.

(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 shall be provided in a way that enhances its verifiability.

~~(b)~~(e) understandable, meaning that the information is clear, and concise. Understandable information enables any reasonable knowledgeable user to readily comprehend the information being communicated~~the enhancing qualitative characteristics of information, i.e., comparability, verifiability and understandability~~.

~~These qualitative characteristics of information are defined and described in *Appendix B* of the present section of this [draft] Standard.~~

## 3. Double materiality as the basis for sustainability disclosures

22. 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*

23. ***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 statements***: 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.

24. Some, but not all, ***stakeholders*** may belong to both groups defined in paragraph 23.

25. 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 negative ***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*

26. 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.

27. 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.

28. The Application Requirements laid out in *Appendix A* of this Section, (paragraph AR 23~~18~~ 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.

29. 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).

30. Irrespective of the outcome of the materiality assessment, as stated also in paragraph 11 of this Section, the undertaking shall always disclose ~~the~~ certain information (see Appendix G) required by Section 2 of this [draft] Standard (i.e., all Disclosure Requirements and data points).

31. 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 14~~5~~ and AR 1 to AR 8~~4~~ of this Section) whenever the material sustainability matter is either not covered by this [draft] Standard or is covered with insufficient granularity.

32. 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 6~~5~~0 and/or the needs of users whose principal interest lies in information about the undertaking's impacts.

33. 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*). ~~This explanation shall include a forward-looking analysis of the conditions that could lead the undertaking to conclude that climate change is material in the future.~~

34. 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.

35. 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*).

36. 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; and

(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.

37. 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'.

38. 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

~~39. ***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***.~~

39. As part of its materiality analysis, the undertaking will assess impacts that it has or is likely to have on people and the environment as well as financial risks (and opportunities) that derive or may derive from sustainability matters. Identifying which sustainability matters are material is a necessary step particularly when minimising or avoiding negative impacts. At the same time, it can help the undertaking to improve its products or services or to develop new ones that address environmental or social challenges. Understanding financial risks (and, opportunities) allows the undertaking to reduce operational costs and avoid fines, litigations and reputational damages.

40. When assessing whether a sustainability matter is to be reported on because it is material to the undertaking, two dimensions have to be considered, namely impact materiality and financial materiality. A matter is material either from a financial or impact perspective or from both. This is what is generally referred to as double materiality analysis, unless otherwise specified, the terms 'material' and 'materiality' used throughout this [draft] Standard refer to **double materiality**.

~~40.~~41. ***Impact materiality*** and ***financial materiality*** assessments are interrelated, and the interdependencies between these two dimensions shall be considered. ~~In general, 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.~~

42. When identifying and assessing the ***impacts*** and ***risks*** (and opportunities) that may occur in~~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.

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

~~41.~~

~~42. The undertaking shall consider how it is affected by its **dependencies** (if any) on the availability of natural and social resources at appropriate prices and quality independently of its potential **impacts** on those resources.~~

~~43.~~44. An undertaking's principal ***impacts*** and ***risks*** are understood to be the same as the material impacts and risks identified with the ***double materiality*** principle and therefore reported in its ***sustainability statement***.

~~44.~~45. 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

46. From the impact perspective, a sustainability matter is to be reported on when it gives rise to- material impacts. In this context, impacts ~~This~~ includes~~:~~

(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

~~45.~~47. 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) and are not limited to direct contractual relationships.

~~46.~~48. In the context of this [draft] Standard, impacts on people or the environment include impacts in relation to environmental, social and governance matters.

~~47. 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[4] 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.~~

49. To determine if an actual negative impact is material, the undertaking has to consider the severity of the impact in question on people and the environment severity is based on:

(a) scale, i.e., how grave the harm caused to people or to the environment is (e.g., a minor injury at work without days lost is placed lower on the scale than a fatality at work; inadequate industrial waste disposal leading to soil pollution within a local facility is placed lower on the scale than a leak of harmful chemicals in a river leading to severe damage of ecosystem and wildlife);

(b) scope, i.e., how widespread the harm caused to people or to the environment is (e.g., the number of people affected or the size of contaminated land); and

~~48.~~ the irremediable character of the impact, that is, whether and to what extent it is possible to remediate the harm caused to people or to the environment (e.g., cleaning up the contaminated land, issuing compensations and/or indemnities for affected people).~~For actual negative impacts, materiality is based on the severity of the impact, whereas for potential negative impacts it is based on the severity and likelihood of the impact. Severity is based on:~~

~~(a) the scale,~~

~~(b) scope and~~

~~(c) irremediable character of the impact.~~

(c) ~~In case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.~~

50. The consideration of scale, scope and irremediability is meant to guide undertakings when analysing the severity of its impacts. The undertaking, however, is not expected to report on details related to each of these three aspects.

51. For potential impacts, the undertaking has to consider both severity and likelihood of occurrence. In the case of a potential negative impact on human rights, the severity of the impact takes precedence over its probability.

~~[4] 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.~~

52. Quantitative measures of impacts yield the most objective evidence that can be collected to assess their materiality. However, quantitative data is not always available or may be costly to produce. Qualitative analysis can be sufficient for the undertaking to reasonably conclude whether a matter is material or not.

### 3.5 Financial materiality

53. From a financial perspective, a sustainability matter is material if it pertains to financial risks that could be reasonably expected to have material financial effects materially influencing the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over short-, medium- or long-term time horizons. In addition to the undertaking's business operations, matters related to the undertaking's business relationships with other companies should also be considered.

54. Material impacts generated by the undertaking generally constitute a source of financial risk. However, the undertaking shall also consider risks that are not related to its material impacts.

55. Like risks, financial opportunities related to a sustainability matter may generate financial effects. Reporting on financial opportunities is optional when preparing a sustainability report under this [draft] Standard (as defined in paragraph 8 of this section).

56. The undertaking shall consider how it is affected by its dependencies (if any) on the availability of natural and social resources at appropriate prices and quality independently of its potential impacts on those resources.

57. Dependencies on natural and social resources may trigger financial risks in two 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 business relationships on acceptable terms.

58. To determine whether a financial risk is material, the undertaking shall assess the probability, the nature and the potential magnitude of the financial effects on the undertaking.

~~49.~~59. 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.

~~50.~~60. 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***.

~~51.~~ 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. ~~Risks may der`ive from past or future events as well as from ***dependencies*** on natural, human and social resources.~~

~~52. 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*** attributable~~

~~to ***business relationships*** with other undertakings, including its subsidiaries, or ***stakeholders*** beyond the scope of financial control.~~

~~53. ***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)~~61. ~~they may affect the undertaking's ability to rely on relationships needed in its business processes on acceptable terms.~~

~~54. The ***materiality*** of ***risks*** is assessed based on a combination of likelihood of occurrence and potential magnitude of the ***financial effects***.~~

### ~~*3.6 Material impacts or risks arising from actions addressing sustainability matters*~~

~~55. The undertaking's ***materiality*** assessment process may lead to the identification of situations in which its ***actions*** addressing certain ***impacts*** or ***risks*** in relation to a sustainability matter might have material negative impacts, or cause ***material risks***, in relation to one or more ***sustainability matters***. Examples of such actions include:~~

~~(a) an action plan to decarbonise production involving the abandonment of certain products, which might have material negative impacts on the undertaking's ***own workforce*** and result in ***material risk***s due to redundancy payments; and~~

~~(b) an action plan of an automotive ***supplier*** focusing on the supply of electric vehicles, which might lead to stranded assets in the production of supply parts for conventional vehicles.~~

~~56. In such situations, the undertaking shall:~~

~~(a) mention the existence of material negative impacts or ***material risks*** together with the ***actions*** that generate them, with a cross-reference to the topic to which the impacts or risks relate; and~~

~~(b) provide a description of how the material negative impacts or ***material risks*** are addressed under the topic to which they relate.~~

### *3.7 Level of disaggregation*

~~57.~~62. 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 countries or sites.

## 4. Value chain

### *4.1 Reporting undertaking and value chain*

~~58.~~63. The information about the reporting undertaking provided in the ***sustainability statement*** shall be extended to include information on the material ***impacts*** and ***risks*** 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 connected to its relevant subsidiaries. ~~Infact, Bbased on the results of the materiality assessment and consequently considering a risk-based approach, investments and other business relationships with the undertaking's subsidiaries could beare also sources of material impacts and risks.~~ In ~~extending the information about the reporting undertaking~~

particular, the undertaking shall include material impacts and risks (opportunities) connected with its upstream and downstream value chain(s), including its relevant subsidiaries:

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

(b) in accordance with ~~the entity-specific disclosures requirements (see paragraphs 14 and 15 of this section) and~~ any specific requirements related to the value chain of topical sections of this [draft] Standard; and

~~(b)~~(c) when ~~necessary~~necessary, on an entity specific basis according to paragraph 14~~[XX]~~ of this section~~standard.~~.

64. The provision (see paragraph 63) to include value chain information (including for metrics) ~~on the extension of the information about the reporting undertaking to include value chain (including relevant subsidiaries) information~~ does not require information on each and every actor in the value chain, but only the inclusion of material value chain information, focusing on value chain ~~actors~~parts that are likely to be connected~~associated~~ with these material impacts and risks.

When assessing material impacts and risks 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

~~(c)~~ 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)~~.~~.

(b)

~~59.~~65. The undertaking shall include material value chain information when this is necessary to:

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

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

~~60.~~66. 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*** following the ***double materiality*** principle (see chapter 3 of this [draft] Standard).

67. If subsidiaries, associates or joint ventures are part of the undertaking's value chain – for example, as suppliers – and when the undertaking is connected with ~~are associated with~~ material ***impacts*** and ***risks*** ~~throught~~through its business relationships with them, ~~– for example, as suppliers –~~ the undertaking shall include information related to those subsidiaries, associates or joint ventures following paragraph 60~~58~~ 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~~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.

68. ~~tConsidering p~~Paragraph 63 ~~which~~ requires ~~to extend~~extending the disclosures on material impacts and risks connected to the undertaking through its ~~to the~~ value chain following the results of the materiality assessment, ~~and,~~ on entity-specific basis and in accordance with specific requirements. T~~T~~hese following three disclosure requirements ~~explicitly require~~define specific provision on coverage of value chain quantitative information. As explained above and in the following chapter 4.2, coverage of value chain information does not necessarily mean collection of data from actors in the value chain:

Section 4

(a) E1-2 - GHG emissions Scope 3 (Scope 3 figures ~~can~~may be calculated using average emission factors, i.e. secondary data);

(b) E1-3 - GHG removals (the undertaking is expected ~~may be required~~ to collect information related to its value chain only if it has projects of GHG removals and decarbonisation levers that involve actors in the value chain);

Section 1

(c) entity-specific disclosures (where the undertaking determines whether and, if so, what value chain information is required). This include when necessary information of a sector specific nature that are not covered by sector specific ESRS;

Additionally, there are qualitative disclosures required in this [draft] standard that may require coverage of value chain information. It is not necessary to collect information directly from actors in the value chain, the undertaking may use indirect sources such as sector-average data, sample analyses, market and peer groups data, other proxies (as explained in in the following chapter, 4.2):

Section 2

(a) SBM-1 - Strategy, business model and value chain (it requires a description of its value chain and if applicable, a description of the subsidiaries that are connected with material impacts and risks);

(b) SBM-3 - Material impacts and risks and their interaction with strategy and business model (For each material impact/risk (opportunity) identified in the materiality assessment, the undertaking shall report whether the undertaking is involved with the negative or positive impacts through its activities or because of its business relationships);

(c) IR-1 – Processes to identify and assess material impacts and risks (the undertaking shall assess its material impacts and risks across its value chain, including relevant subsidiaries);

Section 3

(a) Policies, Actions and Targets (the undertaking shall disclose if policies, actions or targets (PAT) cover value chain, including relevant subsidiaries);

(b) Transition plan for Climate (the undertaking is expected ~~may be required~~ to ~~collect~~ report information related to its value chain only if it involves actors in the value chain in the actions from its transition plan)

Section 4

(a) E2-1– Pollution of air, water and soil, limited to microplastics generated or used by the undertaking or unintentionally produced downstream of the undertaking (i.e. unintentionally produced when larger pieces of plastics like car tires or synthetic textiles wear and tear);

(b) E2-2 - Substances of concern and substances of very high concern, limited to ~~(the undertaking may be required to collect information related to the~~ products/materials and/or substances procured which ends up in products/manufacturing);

(c) E5-1 – Resource inflows (~~the undertaking may be required to collect~~ information from its suppliers in relation to the resource inflows - i.e. products and materials, water and property, plant and equipment - used in the undertaking's own operations).

~~61.~~

### *4.2 Estimation using sector averages and proxies*

~~62.~~69. 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.

~~63.~~70. There are circumstances where the undertaking cannot collect information about its upstream and downstream ***value chain*** as required by paragraph 58 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.

~~64.~~71. 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.

~~65.~~72. 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 'management's judgement, such information ~~t provided that~~ meet the qualitative characteristics of information specified in chapter 2 of this Section.~~such information is subject to at least the same level of assurance as its sustainability statement~~. If there are clear indications that material impacts and risks are not addressed appropriately~~,~~ in this sustainability statement or if the information disclosed do not meet the afore-mentioned qualitative characteristics of information, then further work on the specific impacts and risks in the value chain may be needed.

~~66.~~73. With reference to ***policies*** and ***actions***, the undertaking's reporting shall include upstream and/or downstream ***value chain*** (including subsidiaries) information to the extent that those policies and actions involve ***actors in the value chain***.

~~67.~~74. 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***.

~~68.~~75. 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 ~~Section~~ 6.2 *Sources of estimation and outcome uncertainty* of this Section).

## 5. Time horizons

### *5.1 Reporting period*

~~69.~~76. The reporting period for the undertaking's ***sustainability statement*** shall be consistent with that of its financial statements.

### *5.2 Linking past, present and future*

~~70.~~77. 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.

### ~~*5.3 Reporting progress against the base year*~~

~~71. A base year is the historical reference date or period for which information is available and against which subsequent information can be compared over time.~~

~~72. The undertaking shall present comparative information in respect of the base year for amounts reported in the current period when reporting on the developments and progress towards a ***target***, when a target is in adopted, unless the relevant Disclosure Requirement already defines how to report on such progress. The undertaking may also include historical information about achieved milestones between the base year and the reporting period when this is relevant information.~~

### *5.3~~4~~ Definition of short-, medium- and long-term for reporting purposes*

~~73.~~78. When preparing its individual ***sustainability statement***, the undertaking shall adopt the following time ~~intervals as of the end of the reporting period~~horizons:

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

(b) for the medium-term time horizon, from~~-~~ two ~~the end of the short-term reporting period defined in (a) up~~ to five years; and

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

~~74.~~79. 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 statements***.

~~75.~~80. If different definitions of medium- or long-term time horizons are required for specific items of disclosure in a topical section of this [draft] Standard, the definitions in the topical section shall prevail.

~~76.~~81. There may be circumstances where the use of the medium- or long-term time horizons outlined in paragraph 78~~4~~ 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 statements*** 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~~8~~).

~~77.~~82. 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 78~~4~~ to 81~~78~~.

## 6. Preparation and presentation of sustainability information

~~78.~~83. This chapter provides general requirements to be met when preparing and presenting sustainability information.

### *6.1 Presenting comparative information*

~~79.~~84. 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.

~~80.~~85. If the undertaking reports comparative information that differs from the information reported in the previous period, when ~~this information is compatible~~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.

~~81.~~86. 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.

~~82.~~87. When a topical section of this [draft] Standard requires the undertaking to present more than one comparative period for a metric or datapoint, the requirements of that section shall prevail.

### *6.2 Sources of estimation and outcome uncertainty*

~~83.~~88. 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.

~~84.~~89. 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.

~~85.~~90. 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 ~~*Appendix B*~~ of this ~~[draft] Standard~~section).

~~86.~~91. 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.

~~87.~~92. 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 s~~S~~ection 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 4~~8~~9.

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

~~88.~~93. 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*

~~89.~~94. 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*

~~90.~~95. 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.

~~91.~~96. 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 statements 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.

~~92.~~97. 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.

~~93.~~98. 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.

~~94.~~99. 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.

~~95.~~100. 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*

~~96.~~101. The undertaking is not required to disclose ***classified information*** or ***sensitive information*** even if such information is considered material.

~~97.~~102. When the provision of the disclosures in this [draft] Standard would require disclosing classified or sensitive information, the undertaking may omit such information, even if it is considered material. The undertaking may omit such classified or sensitive information if~~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) the information has commercial value because it is secret; and~~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)~~ its publication will likely negatively affect the financial performance or position of the undertaking.~~has commercial value because it is secret; and~~

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

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

~~98. 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.~~

~~99. 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*

~~100.~~104. 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.

105. 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.

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

~~101.~~

## 7. Structure of the sustainability statement

~~102.~~107. 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* *statements* 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 ~~General presentation requirement~~

~~103.~~108. 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.

### ~~7.2 Content and structure of the sustainability statement~~

~~104.~~109. Except for the possibility to incorporate information by reference 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).

~~105.~~110. 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[5] 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 subject to the provisions of ESRS with the exception of this paragraph and the first sentence of paragraph 112~~05~~ of this Standard.

~~106.~~111. 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~~5~~); and

(b) meet the requirements set for qualitative characteristics of information specified in chapter 2 ~~and Appendix B~~ of this s~~S~~ection.

~~107.~~112. 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,

[5] 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).

thereby avoiding duplications. The undertaking may apply the detailed structure illustrated in *Appendix F* of this Section.

~~108.~~113. 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

~~109.~~114. 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*

~~110.~~115. Provided that the conditions in paragraph 112 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[6];

(e) the universal registration document as referred to in Article 9 of Regulation 2017/1129[7]; and

(f) public disclosures under Regulation 575/2013 of the European Parliament and of the Council (Pillar 3 disclosures)[8].

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

~~111.~~116. The undertaking may incorporate information by reference to the documents, or part of the documents, listed in paragraph 115~~1~~ 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

[6] 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).
[7] 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).
[8] 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).

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

~~112.~~117. Provided that these conditions established in paragraph 116~~09~~ 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[9]. 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 ~~scope of consolidation~~ and treatment of ***value chain*** information (including relevant subsidiaries).

~~113.~~118. 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*

119. 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.

~~114. The information provided in the undertaking's sustainability statements shall be coherent with what is reported in the financial statements and, where applicable, in other parts of the undertaking's corporate reporting. This information shall be presented in a way that facilitates an understanding of the linkages that exist with the information reported in different documents (i.e., by using appropriate cross-references or by explaining how the different pieces of information or assumptions used relate amongst each other).~~

~~115.~~120. 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.

~~116.~~121. 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*

~~117. For the first 3 years of the undertaking's sustainability reporting under the [draft] Standard, in the event that not all the necessary information regarding its upstream and downstream *value chain* is available, the undertaking shall explain the efforts it has made to obtain the necessary information about its upstream and downstream value chain, the reasons why not all of the necessary information could be obtained and its plans for obtaining such information in the future.~~

[9] 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).

~~118.~~122. For the first three years of its sustainability reporting under this [draft] Standard, 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*

~~119.~~123. 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*

~~120.~~124. *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~~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 ~~is~~are ~~are only~~ applicable starting ~~for~~from the first reporting period of the undertaking in scope of this [draft] standard (first sustainability statement issued according to this Standard)~~to LSMEs that do not opt out or cannot opt out according to Art.19 a (7) of Directive (EU) 2022/2464~~. 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*** ***(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*** 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***); ~~whether~~

(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. When developing its entity-specific disclosures, the undertaking 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 [or sector specific ESRS]) provide elements that can support comparability to the maximum extent possible. In particular, the undertaking may complement its disclosures, prepared on the basis of the topical Sections of this [draft] ESRS, with an appropriate set of additional disclosures to cover ***sustainability matters*** that are material to the undertaking in its sector(s), by using available best practices and/or available industry-based frameworks or reporting standards. ~~[NOTE TO THE CONSTITUENTS: THIS ASPECT MAY BE ADJUSTED REFLECTING THE OUTCOME OF THE CONSULTATION ON THE APPROACH TO SECTORS FOR SME].~~ [NOTE THAT EFRAG MAY ISSUE IN THE FUTURE IG FOR

SMES TO BE APPLIED ON A VOLUNTARY BASIS TO BOTH NON LISTED AND LISTED SMEs~~S~~].

AR 6. ~~AR 6.~~ 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. EFRAG expects to issue sector ESRS dedicated to the financial sector that will further enhance reporting standards.

AR 7. 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 14 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 8. 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.

~~AR 6.~~

## *Application requirements – Double materiality*

### *Stakeholders and their relevance to the materiality assessment process*

~~AR 7.~~AR 9. In addition to the categories of ***stakeholder*** listed in paragraph 23, 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 8.~~AR 10. 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 9.~~AR 11. 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***.

### Double materiality

AR 12. 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 13. If there is a high number of actors in the ***value chain*** (including subsidiaries), 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 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 14. 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[10] 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 15. Impacts connected with the undertaking`s upstream and downstream value chain, may concern direct business relationships (TIER 1 actors, such as suppliers, clients, material subsidiaries). However, the undertaking may find itself connected with impacts that occur in more distant parts of the value chain (TIER 2 actors). 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 ~~connetcted~~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 10.~~AR 16. 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) 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 11.~~AR 17. 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

[10] 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.

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 12.~~AR 18. 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 13.~~AR 19. 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 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 14.~~AR 20. The following are examples of how impacts and ***dependencies*** constitute sources of ***risks***:

(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 15.~~AR 21. The identification of ***risks*** 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 53 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 16.~~AR 22. Once the undertaking has identified its ***risks***, 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**

When performing its ***materiality*** assessment, the undertaking shall consider the following list of ***sustainability matters*** (topic, sub-topic and sub-sub-topic)~~covered in the topical sections of this [draft] Standard~~. 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~~ of the relevant topical sections~~. 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*.*

~~AR 17.~~AR 23.

| **[Draft] topical ESRS** | **Sustainability matters covered in [draft] topical ESRS** | | |
|---|---|---|---|
| | **Topic** | **Sub-topic** | **Sub-subtopics** |
| **[draft] ESRS E1** | Climate change[11] | • Climate change adaptation<br>• Climate change mitigation<br>• Energy | |
| **[draft] ESRS E2** | Pollution | • Pollution of air<br>• Pollution of water<br>• Pollution of soil<br>• Pollution of living organisms and food resources<br>• Substances of concern<br>• Subtances of very high concern<br>• Microplastics | |
| **[draft] ESRS E3** | Water and marine resources | • Water<br>• Marine resources | • Water consumption<br>• Water withdrawals<br>• Water discharges<br>• Water discharges in the oceans<br>• Extraction and use of marine resources |
| **[draft] ESRS E4** | Biodiversity and ecosystems | • Direct impact drivers of biodiversity loss | • Climate Change<br>• Land-use change, fresh water-use change and sea-use change<br>• Direct exploitation<br>• Invasive alien species<br>• Pollution<br>• Others |
| | | • Impacts on the state of species | Examples:<br>• Species population size<br>• Species global extinction risk |
| | | • Impacts on the extent and condition of ecosystems | Examples:<br>• Land degradation<br>• Desertification<br>• Soil sealing |
| | | • Impacts and dependencies on ecosystem services | |
| **[draft] ESRS E5** | Circular economy | • Resources inflows, including resource use<br>• Resource outflows related to products and services<br>• Waste | |
| **[draft] ESRS S1** | Own workforce | • Working conditions | • Secure employment<br>• Working time<br>• Adequate wages |

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

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

***Level of disaggregation***

AR 24. Considering the less complexity of the undertakings in scope of this [draft] standard compared to large companies, disaggregation of impacts and risk oftentimes is not needed. However, as required by paragraph 62, if, for instance, an undertaking operates in different countries with significant variations in terms of impacts and risks due to a different context (i.e. different site location, different legislative regime, etc.), it shall disaggregate them by countries to better contextualise its impacts and risks and allow a better understanding of them.

### ~~4.1~~ Application requirements – Reporting undertaking and value chain

AR 25. To illustrate the approach in relation to subsidiaries, 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,

(a) 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)

(b) 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, ~~C~~considering these results, the LSME shall also disclose in its sustainability statement ~~also~~ the relevant information associated with subsidiary “A” and subsidiary "B” on their material impacts.

AR 26. The undertaking, when risks and impacts (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 67~~1~~ 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 18.~~AR 28. When, as required by paragraph 63~~58~~ 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 19.~~AR 29. When the LSME has a large number of actors in its upstream or downstream ***value chain*** (including material subsidiaries), it may not be able after making a~~without~~ ~~un~~reasonable effort to collect direct data from them when such data are either indispensable input to the materiality assessment (see paragraph 42~~1~~ of this Section) or information necessary in order to prepare disclosures ~~the LSME's value chain~~which include value chain information ~~disclosure for ESRS reporting~~ (see paragraph 63~~4~~ 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 20.~~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 21.~~AR 31. When extending the information about the reporting undertaking to include ***value chain*** information in accordance with paragraph 60~~58~~ 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 CO2 ***emissions*** may be considered material in other parts of the value chain.

## ~~Appendix B: Qualitative characteristics of information~~

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

~~This appendix states the qualitative characteristics that the information presented in **sustainability statement** prepared according to this [draft] Standard shall meet.~~

~~**Relevance**~~

~~QC1. Sustainability information is relevant when it may make a difference in the decisions of users under a ***double materiality*** approach (see chapter 3 of this [draft] Standard).~~

~~QC2. 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. Information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Sustainability information does not need to be a prediction or forecast to have predictive value, but rather has predictive value if employed by users in making their own predictions.~~

~~QC3. Information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.~~

~~QC4. Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, as assessed in the context of the undertaking's sustainability reporting (see chapter 3 of this Section).~~

~~**Faithful representation**~~

~~QC5. 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.~~

~~QC6. A complete depiction of an ***impact***, a risk (or an ***opportunity*** on a voluntary basis) includes all material information necessary for the users to understand that ***impact***, ***risk*** or ***opportunity***. This includes how the undertaking has adapted its strategy, risk management and governance in response to that ***impact***, risk (or ***opportunity*** on a voluntary basis), as well as the ***metrics*** identified to set ***targets*** and measure performance.~~

~~QC7. A neutral depiction is without bias in its selection or disclosure of information. Information is neutral if it is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that the users will receive that information favourably or unfavourably. Both negative and positive material impacts from an ***impact materiality*** perspective as well as **material *risks*** and ***opportunities*** from a ***financial materiality*** perspective shall receive equal attention. It shall be balanced, so as to cover favourable/positive and unfavourable/negative aspects. Any aspirational sustainability information, for example ***targets*** or plans shall cover both aspirations and factors that could prevent the undertaking from achieving these aspirations in order to have a neutral depiction.~~

~~QC8. Neutrality is supported by the exercise of prudence which is the exercise of caution when making judgements under conditions of uncertainty. Information shall not be netted or compensated to be neutral. The exercise of prudence means that opportunities are not overstated and risks are not understated. Equally, the exercise of prudence does not allow for the overstatement of risks (or the understatement of opportunities disclosed on a voluntary basis). The undertaking may present net information, in addition to gross value, if such presentation does not obscure relevant information and includes a clear explanation about the effects of the netting and the reasons for the netting.~~

~~QC9. Information can be accurate without being perfectly precise in all respects. Accurate information implies that the undertaking has implemented adequate processes and internal controls to avoid material errors or material misstatements. As such, estimates shall be presented with a clear emphasis on their possible limitations and associated uncertainty (see chapter 6.2 of this Section). The amount of precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses. For example, accuracy requires that:~~

~~a) factual information is free from material error;~~

~~b) descriptions are precise;~~

~~c) estimates, approximations and forecasts are clearly identified as such;~~

~~d) no material errors have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable;~~

~~e) assertions are reasonable and based on information of sufficient quality and quantity; and~~

~~f) information about judgements about the future faithfully reflects both those judgements and the information on which they are based.~~

~~**Comparability**~~

~~QC10. Sustainability information is comparable when it can be compared with information 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.~~

~~QC11. Consistency is related to, but is not the same as, comparability. Consistency refers to the use of the same approaches or methods for the same sustainability matter, from period to period by the undertaking and other undertakings. Consistency helps to achieve the goal of comparability.~~

~~QC12. Comparability is not uniformity. For information to be comparable, like components shall look alike and different components shall look different. Comparability of sustainability information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.~~

**~~Verifiability~~**

~~QC13. Verifiability helps to give users confidence that information is complete, neutral and accurate. Sustainability information is verifiable if it is possible to corroborate either such information itself or the inputs used to derive it.~~

~~QC14. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Sustainability information shall be provided in a way that enhances their verifiability, for example:~~

- ~~(c) including information that can be corroborated by comparing it with other information available to users about the undertaking's business, about other businesses or about the external environment;~~
- ~~(d) providing information about inputs and methods of calculation used to produce estimates or approximations; and~~
- ~~(e) providing information reviewed and agreed by the ***administrative, management and supervisory bodies*** or their committees.~~

~~QC15. Some sustainability information will be in the form of explanations or forward-looking information. Those disclosures can be supportable by faithfully representing on a factual basis for example the strategies, plans and risk analyses of the undertaking. To help users decide whether to use such information, the undertaking shall describe the underlying assumptions and methods of producing the information, as well as other factors that provide evidence that verify that it reflects the actual plans or decisions made by the undertaking.~~

**~~Understandability~~**

~~QC16. Sustainability information is understandable when it is clear, and concise. Understandable information enables any reasonable knowledgeable user to readily comprehend the information being communicated.~~

~~QC17. For sustainability disclosures to be concise, they need to (a) avoid generic "boilerplate" information, which is not specific to the undertaking; (b) avoid unnecessary duplication of information, including information also provided in financial statements; and (c) use clear language and well-structured sentences and paragraphs. Concise disclosures shall only include material information. Complementary information presented pursuant to paragraph shall107 be provided in a way that avoids obscuring material information.~~

~~QC18. Clarity might be enhanced by distinguishing information about developments in the reporting period from "standing" information that remains relatively unchanged, from one period to the next. This can be done for example, by separately describing features of the undertaking's sustainability-related governance and risk management processes that have changed since the previous reporting period compared to those that remain unchanged.~~

~~QC19. The completeness, clarity and comparability of sustainability disclosures all rely on information being presented as a coherent whole. For sustainability disclosures to be coherent, they shall be presented in a way that explains the context and the relationships~~

~~between the related information. Coherence also requires the undertaking to provide information in a way that allows users to relate information about its~~ ~~***sustainability-related impacts, risks***~~ ~~and~~ ~~***opportunities***~~ ~~(on a voluntary basis) to information in the undertaking's financial statements.~~

~~QC20.~~ ~~If~~ ~~***sustainability-related risks***~~ ~~and~~ ~~***opportunities***~~ ~~(on a voluntary basis) discussed in the financial statements have implications for sustainability reporting, the undertaking shall include in the~~ ~~***sustainability statement***~~ ~~the information necessary for users to assess those implications and present appropriate links to the financial statements (see chapter 8 of this Section). The level of information, granularity and technicality shall be aligned with the needs and expectations of users. Abbreviations shall be avoided and the units of measure shall be defined and disclosed.~~

## Appendix B~~C~~: 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~~C~~ 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 first two years of reporting following this Standard, the phase-ins still apply in full effect after the issuance of the first report. For instance, if an undertaking opts-out and is issuing its first sustainability report in financial year 2028 (instead of 2026), then the phase-ins period will count from the financial year 2028.

| LSME ESRS | Disclosure Requirement | Full name of the Disclosure Requirement | Phase-in or effective date (including the first year) |
|---|---|---|---|
| | DR-5 | Strategy, business model and value chain | The undertaking shall report the information prescribed by Section 2 Disclosure Requirement 5 (*SBM-1*) paragraph 2~~20~~6(b) (list of additional significant ESRS sectors) starting from the application date specified in a Commission Delegated Act to be adopted pursuant to article 29c, of Directive 2013/34/EU. |
| | 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 37(e) (anticipated financial effects) for the first year of preparation of its sustainability statement. The undertaking may comply with Section 2 Disclosure Requirement 7 (*SBM-3*) paragraph 37(e) by reporting only qualitative disclosures for the first three years of preparation of its sustainability statement if it is not possible with reasonable effort to prepare quantitative disclosures. |

| LSME ESRS | Disclosure Requirement | Full name of the Disclosure Requirement | Phase-in or effective date (including the first year) |
|---|---|---|---|
| | E1-1 | Energy consumption and mix (energy intensity based on net revenue) | The undertaking may omit the reconciliation with the relevant line item or notes in the financial statements of the net revenue amount from activities in high climate impact sectors information, required in paragraph 10 of this Disclosure Requirement, for the first year of preparation of its sustainability statement. |
| | E1-2 | Gross Scopes 1, 2, 3 and total GHG emissions | Undertakings or groups 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. |
| | E1-2 | Gross Scopes 1, 2, 3 and total GHG emissions (GHG intensity based on net revenue) | The undertaking may omit the reconciliation with the relevant line item of financial statements required in paragraph 21 of this Disclosure Requirement for the first year of preparation of its sustainability statement. |
| ~~**Section 4**~~ | ~~E1-4~~ | ~~Anticipated financial effects from material physical and transition risks and potential climate-related opportunities~~ | ~~The undertaking may omit the information prescribed by E1-4 for the first year of preparation of its sustainability statement. The undertaking may comply with E1-4 by reporting only qualitative disclosures for the first three years of preparation of its sustainability statement if it is not possible with reasonable effort to prepare quantitative disclosures.~~ |
| | All disclosure requirements related to biodiversity and ecosystems | All disclosure requirements related to biodiversity and ecosystems | Undertakings or groups 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 information specified in the disclosure requirements of Section 3 and 4 related to All disclosure requirements related to Biodiversity and ecosystems for the first two years of preparation of their sustainability statement. |
| | E6 | Anticipated financial effects from material environmental- | The undertaking may omit the information prescribed by E6 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) |
|---|---|---|---|
| | | related impacts and risks other than climate | The undertaking may comply with E6 by reporting only qualitative disclosures for the first three years of preparation of its sustainability statement. |
| | All disclosure requirements related to own workforce | All disclosure requirements related to own workforce | Undertakings or groups not exceeding on their balance sheet dates the average number of 50 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements related to own workforce for the first year of preparation of their sustainability statement. |
| | 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. |
| | S1-3 | Collective bargaining coverage | The undertaking may omit this Disclosure Requirement with regard to its own employees in non-EEA countries for the first year of preparation of its sustainability statement. |
| | S1-5 | Social protection | The undertaking may omit the information required under this Disclosure Requirement for the first year of preparation of its sustainability statement. |
| | 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. |
| | 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. |
| | 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. |
| | S1-7 | Health and safety metrics | The undertaking may omit reporting on non-employees for the first year of |

| LSME ESRS | Disclosure Requirement | Full name of the Disclosure Requirement | Phase-in or effective date (including the first year) |
|---|---|---|---|
| | | | preparation of its sustainability statement. |
| **Section 5** | S1-8~~7~~ | Remuneration metrics (pay gap and total remuneration) ~~Health and safety metrics~~ | The undertaking may omit these disclosures if it has fewer than 50 employees. |
| | S1-9 | Incidents and severe human rights impacts | The undertaking may omit the data points on reconciliation of monetary amounts required in paragraph~~s~~ ~~45(b) and~~ 47~~6~~(b) of this Disclosure Requirement for the first year of preparation of its sustainability statement. |
| | S1-10 | Diversity metrics | The undertaking may omit the data point on percentage of employees with disabilities required in paragraph 50(b) of this Disclosure Requirement for the first year of preparation of its sustainability statement. |
| | All disclosure requirements | All disclosure requirements | Undertakings or groups 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 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. |

## Appendix C~~D~~: Structure of ESRS sustainability statements

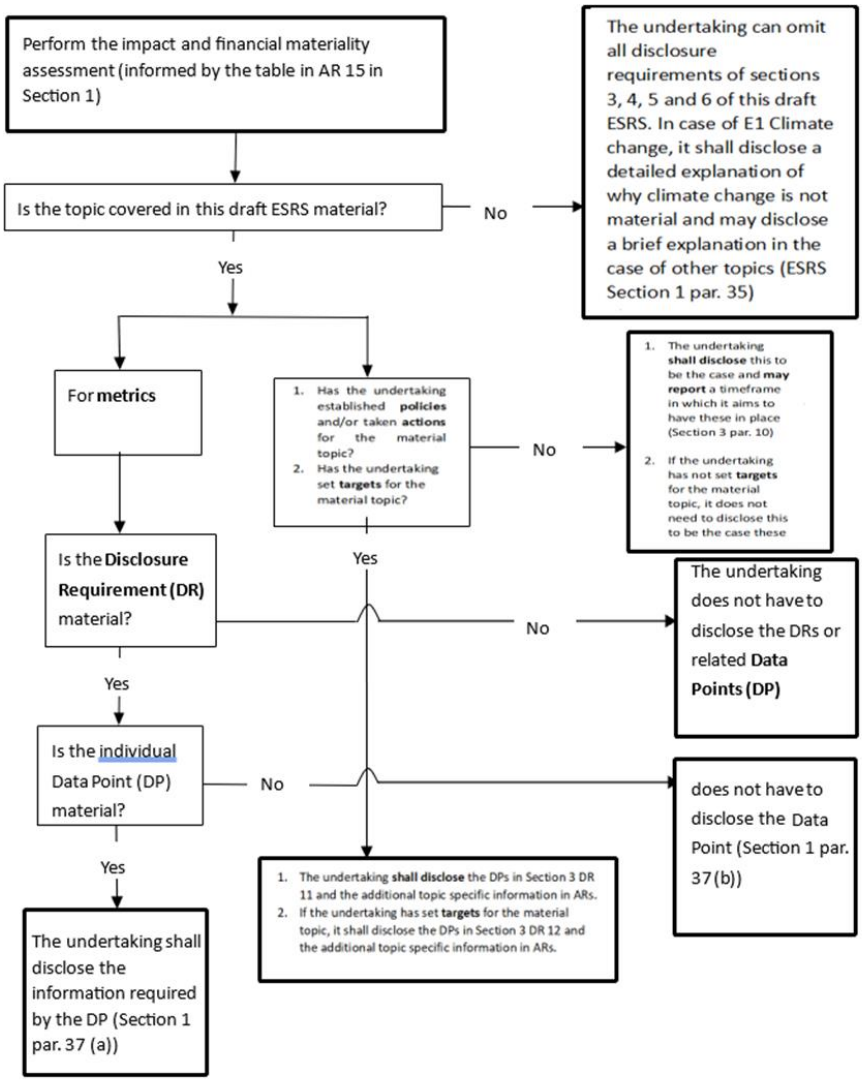
This appendix is an integral part of this [draft] LSME ESRS and has the same authority as the other parts of the Standard with respect to reporting in the four parts outlined in paragraph 115.

| 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~~E~~: Flowchart for determining disclosures under LSME ESRS

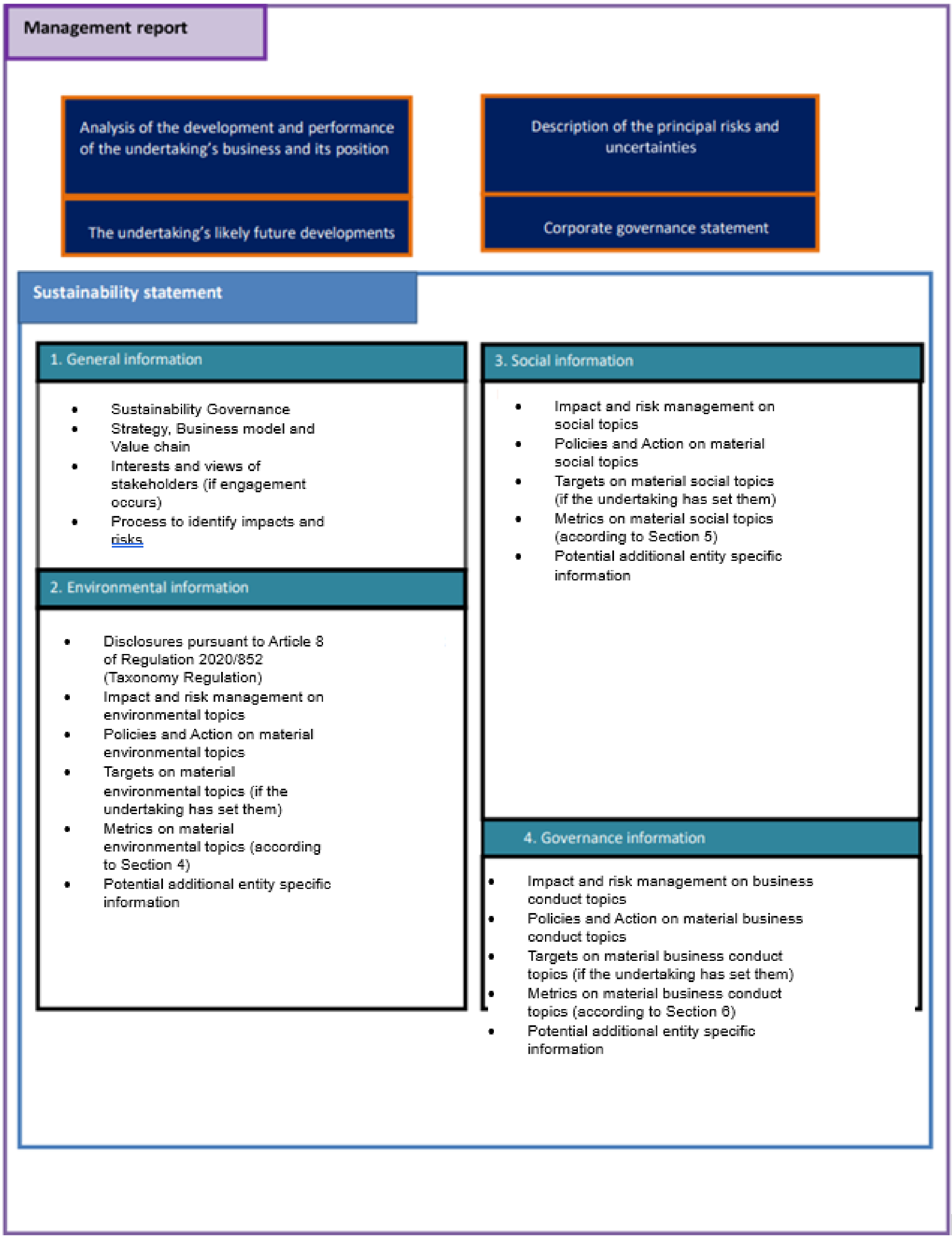
Materiality assessment is the starting point for sustainability reporting under this [draft] Standard. This appendix provides a non-binding illustration of the impact and financial materiality assessment outlined in chapter 3 of this Section. Disclosure Requirement 9 (*IR-1*) *Description of the processes 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).



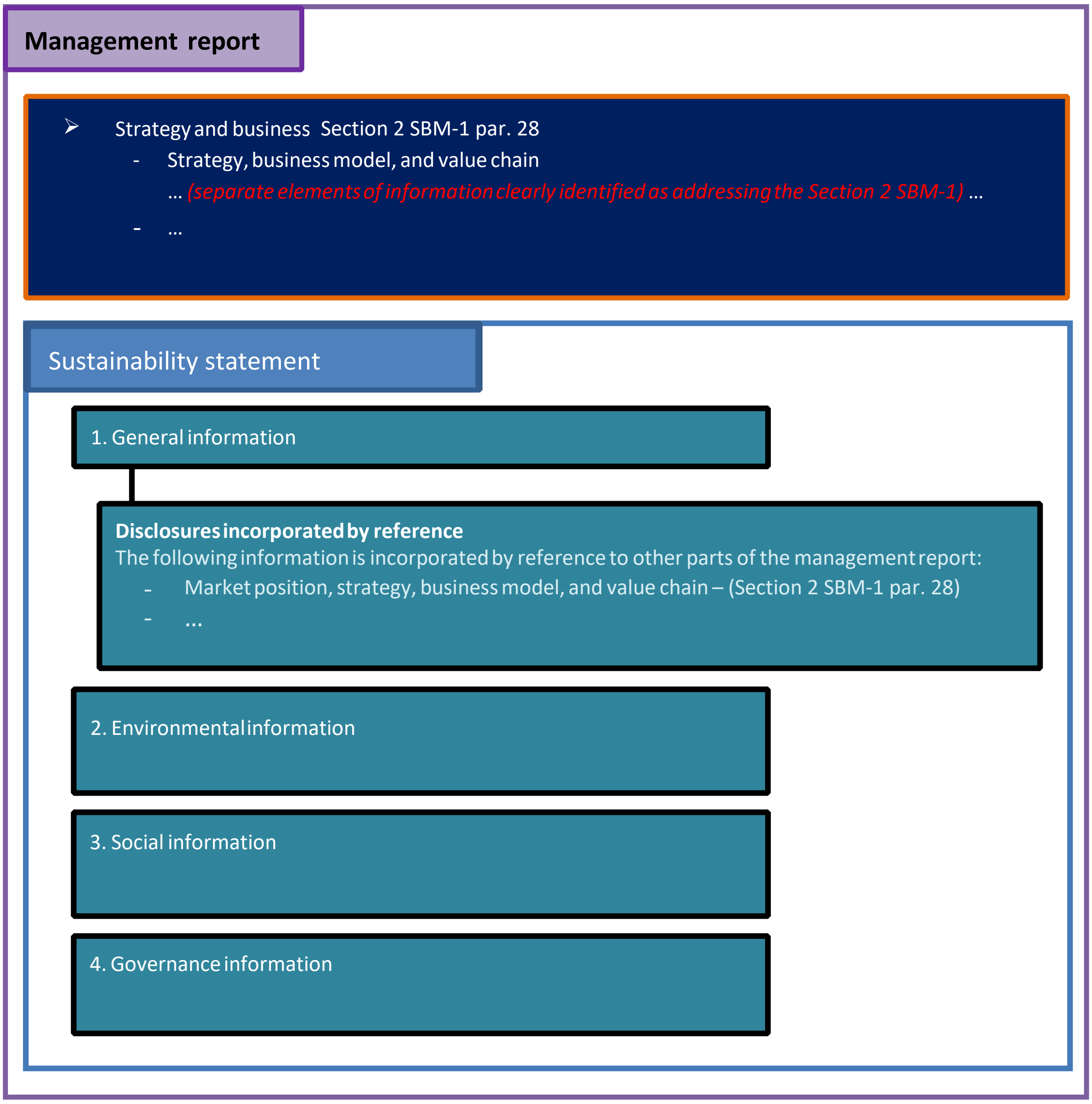
## Appendix E~~F~~: Example of structure of ESRS sustainability statements

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~~G~~: 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~~H: List of Disclosure/Application Requirements in Section 2

| Disclosure/Application Requirements | To be disclosed irrespective of materiality assessment | To be disclosed 'if ~~applicable~~you have to' | To be disclosed on a voluntary basis |
|---|---|---|---|
| Section 2 - Disclosure Requirement 1 (BP-1) – General basis for preparation of the sustainability statements | 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 | | |