

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

Revised LSME

Cover Note

Objective

- 1 The objective of this session is to initiate the approval of Section 4 Environment, Section 5 Social and Section 6 Business conduct as a recommendation to the EFRAG SRB.
- 2 On [7 October](#) the SR TEG discussed those Sections and provided feedback which the EFRAG Secretariat addressed and implemented in the respective DRs. The EFRAG Secretariat additionally took into consideration the feedback received from the workshops for investors, preparers and other stakeholder groups performed at the end of September – beginning of October.

Background of the discussions and state of play

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

Revised LSME IG and approach to may datapoints - non authoritative implementation guidance issued jointly with the draft standard

- 5 A streamlined standard would respond to the feedback of the consultation, however LSMEs are less resourced than entities in scope of Set 1 and would need additional guidance. The reduction of number of pages do not necessarily correspond to an advantage from this point of view. The EFRAG Secretariat proposes to move some ARs to a non-authoritative IG document. Those that contain essential elements of mandatory provisions (e.g. AR to the Entity Specific concept) that are needed to support comparability and auditability and to deliver the characteristics of quality will stay in the Delegated Act while other parts of the AR would be moved to IG.
- 6 For all the voluntary datapoints (“may disclose”) in Revised LSME the tentative approach is to include a reference to Set 1 for guidance and specific ARs. This reduces the number of pages and contributes to streamlining of the standard. At the same time the “may” datapoints are standardised because the relevant guidance of Set 1 applies. To make the Standard more readable, the content of Set 1 related to those references is included as an

Appendix of the “non-binding guidance” to be issued together with LSME. This approach doesn't apply to social disclosures in Sections 2 and 3 because all the disclosures that were in the main text of ESRS S2, S3 and S4 are related to PAT and SBM-3 in Sections 2 and 3 of the LSME standard - deleting them would result in not having S2, S3 and S4 in the draft Standard. Furthermore, some other Application requirements are still in the draft and complement MDR – deleting them from the standard would hinder LSMES' from a simplified version of those compared to a more complexified Set 1.

Changes to the draft Standard - Revised LSME

7 The following table illustrates the changes made in Sections 4, 5 and 6 (discussed in previous SR TEG 7 October) and how the EFRAG Secretariat has taken SR TEG’s feedback and comments into consideration in the draft. These changes are highlighted in **turquoise** in the agenda papers uploaded for this session:

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
Section 4 E1to E5 – Contextual information	NA	NA	Contextual information related to metrics now harmonized across E topics in new AR.
Section 4 E1-1– Energy consumption and mix	<p>Preparers: DR was never calculated before and may not be relevant for certain sectors such as R&D. Challenging and costly due to data availability issues.</p> <p>Users: Majority agree datapoints needed. Add estimation models tailored to sectors and geographies. Suggestion to simplify by keeping only SFDR and the ones related to energy consumption.</p> <p>Other: Feasible/ possible to prepare. Further guidance needed.</p>	<p>Preparers:</p> <ol style="list-style-type: none"> 1. Limit requirement to renewable sources (challenge to disclose consumption from both nuclear sources and renewable sources). 2. Simplify and harmonize across environmental topics (45 out of 83 ARs refer to climate). <p>Users: clarify - It will be necessary to identify possible steps for decarbonization.</p> <p>Other: Limit the number of additional datapoints in the ARs (45 out of 83 ARs refer to climate). Supported by National or</p>	<p>Deletion of disaggregation including non-renewable sources and nuclear sources. Disclosure remains on total energy consumption in MWh related to own operations and share of % from renewable sources.</p> <p>Deletion of disclosure on energy production, both non-renewable and renewable.</p> <p>After SR TEG 7 October: As this is SFDR Table 2, Secretariat reassessed and reinserted as a ‘may disclose’ the breakdown of energy consumption by type of non-renewable sources of energy (such as from fossil sources). Keeping this as voluntary or mandatory still remains to be discussed and decided at SR TEG.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		European authority/Standard Setter Comment Letter	
<p>Section 4</p> <p>E1-2– Gross Scopes 1, 2, 3 and Total GHG emissions</p>	<p>Preparers: challenging to calculate as there is lack of (high quality) information, especially on value chain.</p> <p>Users: keep but suggest aligning with SFDR for Scopes 1/2/3, along with a phase-in. One suggested only keeping Scope 1 & 2.</p> <p>Other: Highly challenging and costly. Further guidance needed.</p>	<p>Preparers: 1. clarifications needed on EU ETS and regulated sectors, consolidating emissions (operational vs. financial control), reporting emissions from leased assets, joint arrangements and associates that are not in the value chain and Scope 3</p> <p>Proposal: Scope 3 emissions on voluntary basis (difficulty in acquiring data from partners); too high expectations for Scope 1 and 3.</p> <p>methodological issue in meeting GHG Protocol requirements if an LSME is at the same time a parent of a small or medium-sized group (so having subsidiaries). This issue should be considered when mandating on listed SMEs the obligation to meet the GHG Protocol requirements.</p> <p>Industry Association supports stronger requirements to ensure SFDR/Benchmarks Regulation/Pillar 3</p>	<p>Simplification of datapoints through deletion of market-based method for total emissions.</p> <p>To disclose location-based scope 2 emissions, and if applicable the market-based scope 2 emissions.</p> <p>Reference to possible use of calculators and tools in AR.</p> <p><u>After SR TEG 7 October and workshop feedback from investors:</u> Secretariat is extending the disclosure on Scope 3 emissions to all undertakings in Scope (previous suggestion was to limit to HCIS).</p>

Revised LSME session – Cover Note

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<p>data points and data points on key climate metrics such as GHG emission scopes 1, 2 and 3 are effectively disclosed by companies.</p> <p>Users: majority agreed</p> <p>Users noted importance of GHG emissions information for business partners and decarbonization reasons.</p> <p>PHASE-IN: extend Scope 3 emissions transition period to 5 years (particularly complex for value chain related total emissions).</p> <p>Other: majority agreed but left detailed comments per paragraph (Scope 3 flexibilities for LSMEs / more guidance / voluntary to use market based methods)</p>	

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
<p>Section 4</p> <p>GHG Intensity based on net revenue</p>	<p>Preparers: challenging to calculate as there is lack of (high quality) information, especially on value chain</p> <p>Users: majority agreed. keep but suggest aligning with SFDR for Scopes 1/2/3, along with a phase-in. Or only keeping Scope 1 & 2. Further guidance needed.</p> <p>Other: Highly challenging and costly. Further guidance needed.</p>	<p>Preparers: majority agreed.</p> <p>Suggestions:</p> <ul style="list-style-type: none"> - either as voluntary or not applicable to LSMEs. - reduce granularity (e.g., considering that green certificates from the energy providers may not have been received until the report publication). - allow SNCI the possibility to define a denominator (sales is not suitable). - give a 3 year phase in <p>Users: all agreed</p> <p>Suggestions: - give a phase in as this metric will not be available until Scope 3 emissions are included in total GHG emissions.</p> <p>clearer guidance on how the calculation/reconciliation will be performed, with examples.</p> <p>Other: Most agreed</p> <p>Suggestions:</p>	<p><u>Moved to AR</u>: Previous paragraphs on reconciliations to the relevant line item or notes in the financial statements of the net revenue amounts and flexibility of SNCIs to use other (more appropriate in cases) denominators.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<p>allow SNCI the possibility to define own denominator (Net-Turnover is not suitable) until an industry standard is been issued.</p> <p>delete §21, to be calculated directly by FMPs as the denominator and nominator will be available. Reasons: technical reasons of KPI; delete AR 17 to AR 18.</p> <p>delete or defer §22 (reconciliations with financial statements).</p>	
<p>Section 4 E1-3 – GHG removals and GHG mitigation projects financed</p>	<p>Preparers: challenging to calculate as there is lack of (high quality) information, especially on value chain.</p>	<p>Preparers: majority agreed. Suggestion: Further simplifications should be considered. Users: most agreed</p>	<p><u>After SR TEG 7 October:</u> After discussions of feasibility of adjustments, it was agreed to keep removals (value chain implications) but to delete carbon credits (relates to own operations only).</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
through carbon credits	<p>Users: The design of carbon offsetting projects should be validated with a DR that mentions the use of several standards and mechanisms. This DR should always be separate to GHG totals.</p> <p>Other: Give software/tool to calculate. Lack of information on the value chain.</p>	<p>Suggestions: removals and carbon credits should always be reported separately from the total GHG amounts.</p> <p>Other: most agreed</p> <p>Suggestions: simplify and turn to voluntary</p>	
<p>Section 4</p> <p>E1-4 – Anticipated financial effects from material physical and transition risks and potential climate related opportunities</p>	<p>Preparers: more guidance and software/tool to calculate, especially on scenario development.</p> <p>Users: Should only be voluntary and if the LSME identifies negative financial effects due to physical and transition risks.</p> <p>Other: Highly challenging and costly. Further guidance needed.</p>	<p>Preparers: Some agreed</p> <p>Suggestions:</p> <ul style="list-style-type: none"> - Align with financial disclosures - The company should report only if it can be done with reasonable effort - More guidance should be provided - Remove “before considering climate actions” <p>Users: all agreed</p> <p>Suggestions:</p>	<p>Merged with E2, E3, E4 and E5 DRs on the topic in new DR E6, including brief description of risk.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<ul style="list-style-type: none"> - Voluntary and only if the LSME confirms the existence of negative effects from physical and transition risks - Alternative: keep reporting on financial effects of physical risks mandatory (required by EBA Pillar 3 Template 5); and require financial effects of transitional risks only if the undertaking discloses that it has a transition plan (avoids LSMEs the spending of additional resources to perform climate scenarios). <p>Other: most agreed</p> <p>Suggestions: the DR needs to be simplified</p>	
<p>Section 4</p> <p>E2-1– Pollution of air, water and soil</p>	<p>Preparers: data availability issues for this DR.</p> <p>Users: Suggestion to use sector and geography-tailored estimation models that require minimum input information.</p>	<p>Preparers: majority agreed</p> <p>Suggestions: clarifications and adjustments to inferior methodology needed</p> <p>Users: all agreed</p>	<p>Previous sections E2-1 (pollution of air, water and soil) and E2-2 (substances of concern and substances of very high concern, i.e. 'SoC' and SVHC) are now merged.</p> <p>Objective and bolded paragraph now streamlined.</p> <p>E-PRTR & IED references updated.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>Other: Include more guidance, including precise reporting definitions, thresholds and examples.</p>	<p>Suggestions: guidance on best practice (where not mandated in the undertaking's jurisdiction) for measuring and disclosing each pollutant emitted to air, water and soil.</p> <p>Other: majority agreed</p> <p>Suggestion: Clarifications in AR needed for better guidance</p>	<p>For Soc and SVHC, removed split by main hazard class, keeping 2 datapoints (volumes in terms of what is generated or used as input and what is output as emissions, products or services).</p> <p>Contextual information related to metrics now harmonized across E topics in new AR.</p> <p>AR section now aligned with VSME.</p> <p>Included guidance on pollutants and substances in separate guidance document.</p> <p>Created guidance on microplastics in separate guidance document.</p> <p>After SR TEG 7 October: As microplastics are not clearly defined in Set 1, SR TEG members suggested and agreed on the need for more clarification in LSME. This is particularly important for AR 20 of Set 1 which described microplastics however, the current wording 'generation' is ambiguous. Secretariat should develop further clarifications for this AR.</p>
<p>E3-1 – Water consumption</p>	<p>Preparers: highly challenging</p> <p>Users: Keep this DR only for water-intensive specific sectors where there is water consumption, not only water</p>	<p>Preparers: majority agreed</p> <p>Suggestions: water intensity per revenue may not suit to all industries / clarification needed on definitions of water consumption and turnover /</p>	<p>Changed from 'shall' to 'may' and moved to AR metrics on: water recycled and reused, water stored and changes in storage and water intensity.</p> <p>Made water consumption 'shall, if applicable', with explanation of what triggers the applicability.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>usage and give more guidance for water-intensive sectors.</p> <p>Other: Include more guidance, including precise reporting definitions, thresholds and examples.</p>	<p>guidance and examples for water intense areas needed / allow different denominators</p> <p>Users: Most agreed</p> <p>Suggestions: the DR should apply in water intensive sectors and give guidance for those</p> <p>Other: Most agreed</p> <p>Suggestions: water intensity per revenue may not suit to all industries / clarification needed on definitions of water consumption and turnover / guidance and examples for water intense areas needed / allow different denominators</p>	<p>Added water withdrawal as ‘may’.</p> <p>Clarified concepts and added examples and references in separate guidance. Added specific material on water withdrawal for shared facilities. Added EEA WEI+ map/dataset as alternative reference to WRI Aqueduct for areas at high water stress (still though under discussion with EEA).</p>
<p>E4-1 – Impact Metrics related to Biodiversity and Ecosystems Change</p>	<p>Preparers: Highly challenging. External consultants needed. Include more guidance including calculation support and templates.</p>	<p>Preparers: some agreed</p> <p>Suggestions:</p> <p>-GUIDANCE on calculation data, measurement of biodiversity</p>	<p>EMAS-aligned land-use change metrics moved from AR to DR as voluntary / main text, aligning with VSME. Paragraph with reference to additional set 1 metrics on land-use/freshwater-use/sea-use change now streamlined. A table that can be used for information on land-use added to the ARs.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
	<p>Users: Include in guidance definition and list of global sensitive biodiversity areas.</p> <p>Other: The value chain coverage should be better clarified (own operations vs operational control).</p>	<p>footprint (currently no established metrics).</p> <p>-value chain scope is too complex; consider further overall simplification.</p> <p>Users: majority agreed / suggestion to add definition or provision of a global list of biodiversity-sensitive areas.</p> <p>Other: majority agreed</p> <p>Suggestions:</p> <ul style="list-style-type: none"> - definition of "sites managed" and measurement of area (e.g. outdoor areas). - harmonize methodological requirements across environmental matters (AR 5). - delete LCA approach (§52), only keep what is under SMEs' direct control. 	<p>After SR TEG 7 October: after SR TEG suggestion, added in Objective of this DR this additional sentence: <i>'..an understanding of how the undertaking's business model is in line with the EU Biodiversity Strategy for 2030 (to end biodiversity loss by 2030).'</i></p> <p>Also included institutional Frameworks and Directives references for Biodiversity strategy used in Set 1.</p>

Revised LSME session – Cover Note

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<ul style="list-style-type: none"> - ensure same granularity on biodiversity impact metrics as ESRS E4-5. - include a metric on the type of ecosystem where a site is located (and potentially HCV status). - add request for details on volumes and type of commodity procured from ecosystems, and commodity source to production unit level (if feasible, otherwise subnational area). <p>add information on type of monitoring system used; include deforestation.</p>	
			<p>Paragraphs on Life Cycle Assessment in main text and AR deleted and moved to separate guidance document, reference to IG2 added there.</p>
			<p>Paragraph on Invasive Alien Species deleted and moved to separate guidance document.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
			Paragraphs on Methodology and Contextual Information deleted and moved to separate guidance document. (A consolidated AR on contextual information in relation to metrics added covering all E standards.)
			The definition of managed sites deleted and moved to separate guidance document.
			Paragraph on frameworks to identify protected areas added to separate guidance document (aligned with VSME).
E5-1 Resource inflows	<p>Users: Use sector and geography-tailored estimation models that require minimum input information.</p> <p>Other: More guidance is needed including definitions, calculation support and templates.</p>	<p>Preparers: some agreed</p> <p>Suggestions: Add definitions (e.g., value chain) and calculation rules and simplify to avoid companies opting out.</p> <p>Users: All agreed</p> <p>Other: Most agreed</p> <p>Suggestions:</p> <ul style="list-style-type: none"> - Reinforce by adding requirement on volumes or weights (may be estimated through proxies) of materials used that generate material impacts. 	<p>DRs simplified by moving of the explanations on percentage-based disclosures on material expenditures, sustainability-certified biological materials, as well as detailed expenditure and certification schemes information to the LSME Guidance.</p> <p>After SR TEG 7 October: Public consultation indicated difficulty in disclosing secondary and biological materials, thus the Secretariat simplified this DR by only asking for annual mass-flows to certain sectors. SR TEG members however suggested to include all undertakings in this datapoint. Secretariat will do so in the next version of the draft. After SR TEG feedback, Secretariat also reinserted secondary materials, as it was previously deleted from the draft Standard and move to the LSME IG as simplification</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<ul style="list-style-type: none"> - refer to upstream value chain. - Define biological Simplify AR	
E5-2 Resource outflows	Users: only keep total waste generated and add the type of waste and the way it is managed. Other: More guidance needed including definitions, calculation support and templates.	Preparers: some agreed Suggestions: Add definitions (e.g., value chain) and calculation rules and simplify to avoid companies opting out. Users: All agreed Other: Most agreed Suggestions: <ul style="list-style-type: none"> - move §62-63 (products and materials) to ARs on an optional basis (requirements closer to opportunities than to negative impacts). - delete §67 (always true for metrics) or move to ARs and harmonize across environmental metrics (no need to repeat in all DRs). 	Waste disclosure simplified to focus on total annual waste generation, broken down by type (non-hazardous and hazardous), as well as the total annual waste diverted to recycling or reuse, to align with VSME. Removed AR on products and materials, and added additional ARs on waste (on non-hazardous and hazardous (including radioactive waste)). Additional guiding examples added to separate guidance document. After SR TEG 7 October: After having aligned with VSME and deleting products an material, SR TEG suggested to include a narrative datapoint on products and materials, which is already reflected in the current draft.

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
		<p>Include definitions (e.g., value chain) and calculation rules.</p>	
<p>E6 – Anticipated financial effects from material environmental-related matters other than climate</p>	<p>Preparers: data collection challenge: Materiality is challenging for topics not related to climate.</p> <p>Users: Suggested that the information can indeed be useful but practically burdensome for LSMEs.</p> <p>Other: More guidance including definitions, calculation support and templates is needed.</p> <p>This DR comes with data availability issues which poses challenges to SNCIs.</p>	<p>Preparers: some agreed</p> <p>Suggestions:</p> <ol style="list-style-type: none"> 1. Need for information to be completed by reference to financial disclosures to avoid discrepancies. 2. Need for further simplifications to avoid companies opting out. <p>Users: all agreed</p> <p>Other: Majority agreed</p> <p>Suggestions:</p> <ul style="list-style-type: none"> - add positive financial impact on society and from society to company finances. - only apply to climate (more mature topic), delete for other environmental topics <p>clarify or provide examples from the SNCI viewpoint on possible anticipated financial effects</p>	<p>Now merged with E1-4; content across all environmental topics deleted or streamlined.</p> <p>Objective and bolded paragraphs are now streamlined.</p> <p>Creation of guidance on physical and transition risks for all environmental topics in separate guidance document.</p> <p>After SR TEG 7 October: After having aligned with VSME, SR TEG suggested to explore more alignment with Set 1. Secretariat added a merged request of a brief description of how the material risks of SBM-3 have (or could reasonably be expected to have) a material influence on the undertaking’s financial position, financial performance and cash flows over the short-, medium- and long-term for all E topics.</p> <p>For climate change, Secretariat strictly kept it to EU Law datapoints.</p>

Topic / DR	Field test feedback	Public consultation feedback	Summary of change in Revised LSME
Section 5 General			<p>After SR TEG 7 October: As Secretariat presented the deleted references of S2-S4 in the Objective part of Section 5 (these objectives are already reflected in Section 3), one SR TEG member expressed concern that reader of this Standard might misinterpret Section 5 as the only Section related to Social disclosures. As this is not the case and social disclosures of S2-S4 (incl. PAT for S1) are included in Section 3, the member suggested to make explicit in the title that Section 5 related to Own workforce metrics (this could also apply to Sections 4 and 6). Secretariat readjusted in the title and in par. 3 of paper 03-03 in the logic of the member’s suggestion. The same member also pointed out a mistake in the expanded paragraph 3, which failed to mention that there are also social disclosures in Section 2 of LSME Revised. This was corrected by adding a reference to the relevant disclosures in Section 2. For consistency reasons, this change was also inserted in the corresponding paragraph in the ‘Objectives’ chapter of Section 3.</p>
Section 5 DR S1-8- Remuneration metrics			<p><u>The newly added second sub-paragraph of paragraph 27 was changed to bring the wording in line with Article 3 of the Accounting Directive where small undertakings are defined as those that, among other things, have no more than 50 employees on average during the financial year. This is also in response to a question asked during the LSME stakeholder workshops.</u></p>

Questions for EFRAG SR TEG

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

Workshops conducted

9 EFRAG Secretariat conducted three workshops:

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

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

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

Agenda Papers

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

- (a) Agenda paper 02-02 – draft Revised LSME Section 4 Environment (track changes compared to ESRS LSME ED) – EFRAG SR TEG 24-10-17;
- (b) Agenda paper 02-03 – draft Revised LSME Section 5 Social (track changes compared to ESRS LSME ED) – EFRAG SR TEG 24-10-17;
- (c) Agenda paper 02-04 – draft Revised LSME Section 6 Business conduct (track changes compared to ESRS LSME ED) – EFRAG SR TEG 24-10-17;
- (d) Agenda paper 02-05 – draft Revised LSME Section 4 Environment (clean version) – EFRAG SR TEG 24-10-17;
- (e) Agenda paper 02-06 – draft Revised LSME Section 5 Social (clean version) – EFRAG SR TEG 24-10-17; and
- (f) Agenda paper 02-07 – draft Revised LSME Section 6 Business conduct (clean version) – EFRAG SR TEG 24-10-17.