

EFRAG Public Consultation – January 2024 - Questionnaire ESRS LSME Exposure Draft

1. DISCLAIMER:

This questionnaire supports the feedback on the ESRS LSME Exposure Draft ('ESRS LSME ED' or 'ED') which has been developed as a result of EFRAG SR Board and SR TEG discussions. The purpose of this consultation is to collect feedback and comments from a variety of stakeholders with regards to the content of the ED. The ED incorporates inputs from the EFRAG Expert working group, the EFRAG LSME community and stakeholders outreach events .

EFRAG is also consulting on an exposure draft for a draft voluntary standard for non-listed SMEs (VSME ED).

The following background documents help respondents in framing the questions:

Annex 1: ESRS LSME ED ([link](#))

Annex 2: "Exposure Draft - ESRS for listed SMEs Basis for Conclusions". It provides an overview of the methodologic approach taken, the main content of the ED, the approach to the value chain cap and the key aspects discussed by the EFRAG SRB and SR TEG ([link](#)). The addendum to the Basis for conclusions includes the comparison of ESRS LSME ED and the full text of ESRS for large undertakings (Set 1) to illustrate the simplifications implemented in the ED as well as the changes made by the EFRAG SRB to the ED as approved by the EFRAG SR TEG. ([link](#)).

Annex 3: Approach to Value Chain Cap in LSME ESRS ED and VSME ED ([link](#))

Deadline for answer is 21 May 2024 (EoD).

1 Link to the official journal [here](#).

2. Introduction to the ESRS LSME ED survey

As part of the second set of draft European sustainability reporting standards, EFRAG has the mandate to develop the European Sustainability Reporting Standard for SMEs that are public-interest entities, small non-complex credit institutions (in short, SNCI or SNCIs), and captive insurance and re-insurance undertakings (collectively referred to as "LSME" or "LSMEs").

This survey contains general questions (part a) and specific questions on each of the sections of the ED (part b).

In this questionnaire, if not differently specified, the term "undertaking(s)", or LSME or SME refers to companies in scope of the ESRS LSME ED.

Survey instructions

Some questions in the survey will appear depending on your previous answers or choices. You will now be able to save your responses before final submission.

If you have no opinion on a question you can skip the question.

Please note that EFRAG only considers completed surveys - partial submissions are ignored. You will receive an email with your response on submission.

3. Information on Survey Participant:

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Last Name:

Muresianu

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Organisation name (if applicable):

AFG

Organisation type:

Other

If other:

Industry Association

Main country of operations:

France

Main sector of operations:

Financial Institutions

Number of employees:

40

4. Key features of LSME ED

The CSRD requires EFRAG to develop a draft LSME standard (once adopted by the European Commission) that may be used by listed SMEs, SNCI, captive insurers and reinsurers in preparing their sustainability information rather than the more complex ESRS for large undertakings.

The purpose of ESRS LSME ED is to treat SMEs differently given their size and complexity while ensuring that financial market participants have the information they need to comply with their own sustainability disclosure requirements (Regulation EU 2019/2088 SFDR and Taxonomy disclosures). The ED shall be proportionate and relevant to the capacities and the characteristics of SMEs including the scale and complexity of their activities.

The final reporting standard for LSMEs will determine the 'value chain cap', i.e. ESRS shall not specify disclosures that would require large undertakings to obtain information from SMEs that exceeds the information to be disclosed pursuant to LSME ED.

Compared to the ESRS Set 1, LSME ED reflects a simplified structure, where the content of the twelve ESRS in Set 1 (issued as Delegated Act - ESRS Set 1) has been rearranged in one standalone Standard with six sections: three general sections, Section 1 General requirements, Section 2 General disclosures and Section 3 Policies, actions and targets; and three topical sections dedicated to metrics only, Section 4 Environment, Section 5 Social and Section 6 Business conduct.

To simplify the requirements, as required by the CSRD, the ED adopts an individual and not consolidated perspective.

For further information on Context and legal background on ESRS LSME ED, please go to this [link](#)

Building block standard-setting approach

EFRAG has followed “building block” approach for the reporting of the smaller and less complex undertakings. This is a scalable standard-setting approach that ensures consistency in method and terminology. It aims to allow those undertakings to be able to level up in terms of extension and deepening of the disclosure requirements if wanted.

EFRAG has developed a draft voluntary standard for non-listed SMEs (VSME ED), issued for public consultation jointly with ESRS LSME ED. While the VSME ED has been developed as a simplification of the standards for large undertakings, it has been designed on the basis of the frequently observed data requests from lenders, investors and corporate clients of SMEs. The VSME ED uses a more simplified language compared to ESRS LSME ED (and ESRS Set 1), however coherence has been preserved, in terms of structure, sustainability matters and key defined terms. As a result, in a broader sense, the building blocks are as follows:

VSME (Basic module + Narrative PAT¹⁰ module + Business partner module);

ESRS LSME ED: All VSME modules + other EU datapoints (a complete list is provided in appendix B of Section 2 of the ED) + additional datapoints due to CSRD and users’ needs (and adjustments due to the consolidated view in VSME vs individual view in ESRS LSME ED);

ESRS Set 1 (LSME ED being a simplification of ESRS Set 1, see the addendum to the Basis for conclusions).

For further background information on the developments of EFRAG work on the LSME ESRS, please refer to [Annex 2](#) Exposure Draft - ESRS for listed SMEs Basis for Conclusions.

¹⁰ PAT refers to as Policies, Actions, and Targets

5. Survey structure and instructions:

The objective of this survey is to gather feedback for ESRS LSME ED around the following topics:

Part A. Key questions about ESRS LSME ED (key questions as prioritised by the respondent):

- A.1) Methodological approach and general principles
- A.2) Value chain implications
- A.3) Sector approach

Part B. Specific questions for each section of the ESRS LSME ED (detailed questions to respond per LSME section):

- B.1) Section 1: General requirements
- B.2) Section 2: General disclosures
- B.3) Section 3: Policies, Actions and Targets
- B.4) Section 4: Environment
- B.5) Section 5: Social
- B.6) Section 6: Business conduct

6. QUESTIONS

Part A. Key questions about ESRS LSME ED (key questions to be prioritised by the respondent):

- A.1): Methodological approach and general principles

The “decision tree” to develop the ESRS LSME ED

The CSRD identifies the minimum content¹¹ of the ED as a derogation of the content indicated for Set 1 (ESRS as published in the Official Journal in December 2023). The text of ESRS for large undertakings has been simplified to the maximum extent possible while considering the needs of investors. The diagram below illustrates the criteria for developing the simplifications:

Reporting areas listed in CSRD art. 19a(6) and 29c, as content in the CSRD specific to LSMEs;
DRs mandated by EU laws, to make information available to financial market participants: SFDR, Benchmark, Pillar 3 ESG and EU Taxonomy datapoints;

Datapoints covering value chain information that are needed by large undertakings to report under ESRS Set 1 (value chain cap). In this step, the priority has been to include datapoints when are needed by investors of the SMEs in scope of LSME and no datapoints have been added due to the value chain cap.

11 “By way of derogation from paragraphs 2 to 4 of this Article, and without prejudice to paragraphs 9 and 10 of this Article, small and medium-sized undertakings referred to in paragraph 1 of this Article, small and non-complex institutions defined in point (145) of Article 4(1) of Regulation (EU) No 575/2013, captive insurance undertakings defined in point (2) of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council (*10) and captive reinsurance undertakings defined in point (5) of Article 13 of that Directive may limit their sustainability reporting to the following information:

- (a) a brief description of the undertaking’s business model and strategy;
- (b) a description of the undertaking’s policies in relation to sustainability matters;
- (c) the principal actual or potential adverse impacts of the undertaking on sustainability matters, and any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts;
- (d) the principal risks to the undertaking related to sustainability matters and how the undertaking manages those risks;
- (e) key indicators necessary for the disclosures referred to in points (a) to (d).”

1. Do you agree with the approach adopted to develop LSME ED as a simplification of the content of ESRS Set 1?

Please select:

Yes

Please explain your answer:

Yes, this approach allows to achieve a reasonable trade-off between proportionality and investors' needs. This allows also to follow a structured approach to simplify ESRS Set 1 in line with the CSRD, so decisions on the disclosure requirements from large undertakings standard to be included or amended/simplified for LSMEs are consistent.

Datapoints in EU regulation that are needed by financial market participants

The CSRD indicates that the ED is expected to ensure the availability of SFDR principal adverse impacts or PAIs and Taxonomy disclosures. Article 29b (5) of CSRD establishes that ESRS standards (including ESRS LSME ED) shall, to the greatest extent possible, take account of the information that financial market participants need to comply with their regulations (i.e. SFDR, EU Taxonomy (Reg. 2020/852) and other EU Regulations included in Set 1). We refer to these as “EU datapoints”.

All EU data points from Set 1 have been included in ESRS LSME ED (see Section 2 Appendix B *List of datapoints in cross-cutting and topical sections that derive from other EU legislation*).

As in ESRS Set 1, these EU datapoints are subject to the materiality regime depending on the category of disclosures (see Materiality Approach in Question 5). When EU datapoint metrics are omitted as deemed not material, a specific disclosure is required confirming that they are not material.

2. Do you agree with this approach on EU datapoints?

Please select

Yes

Please explain your answer:

Yes, as CSRD aim to provide consistent and transparent extra-financial information to investors and other financial market actors. This allows to increase the accuracy, consistency and comparability of corporate sustainability reporting, and also consistency between large undertakings and LSMEs, while ensuring convergence between the CSRD and other EU regulations such as SFDR.

Interoperability with ISSB standards not applicable

Considering that SMEs are usually less active at international level than large undertakings, in the development of LSME ED, EFRAG has prioritised simplification over interoperability with ISSB. The alignment with IFRS S1 and S2 is not one of the objectives of the CSRD for LSME (see ESRS LSME ED Basis for Conclusions par. 32 b). EFRAG has considered that pursuing the alignment with ISSB would limit the simplifications, without the full benefit, as opportunities are to be excluded per the CSRD.

3. Do you agree with this approach?

Please select:

Yes

Please explain your answer

Yes, the AFG is aligned with the decision to prioritize simplification over alignment with IFRS S1 and S2, as this alignment is not a prerogative for LSME as they are not that much concerned. Also, covering financial opportunities would have led to disproportionate efforts for LSME in their reporting and would impair the possibility to further simplify the standard. But because the ESRS Set 1 is still highly aligned with IFRS S1 & S2 excepted on the financial opportunities datapoints, the AFG considers the EFRAG decision totally acceptable.

Entity-specific disclosures

Depending on the type of activities carried out, the inclusion of additional information about issues that are common to the undertaking's sector support the provision of relevant, faithful, comparable, understandable and verifiable information. As ESRS Set 1, the ED requires to include additional disclosures when a material impact or risk is not covered or not covered with sufficient granularity by the requirements of the ED. EFRAG has considered that eliminating such requirement would be contrary to the objective of LSME indicated in the CSRD, i.e. to meet the investors' needs. Therefore, the ED has maintained the same approach as in ESRS Set 1.

4. Do you agree with this approach taken on entity-specific disclosure?

Please select:

Yes

Please explain your answer

Yes, the AFG agrees that a material risk regarding entity-specific activities or sector-specific activities should be disclosed if it is not covered/not covered with sufficient granularity by the requirements, as some sectors can have specificities that can be not captured or miscaptured by ESRS Set 1 requirements. This approach allows to ensure that every impact or risk for a specific activity are taken into account in a relevant and complete way.

Materiality approach

The ED has maintained the same approach for materiality as in ESRS Set 1, in consideration of the users' need of information of the necessary quality. This approach is detailed in Chapter 3.2 of Section 1 of the ED and is described below.

Information required by Section 2 General disclosures of this ED is to be reported irrespective of the outcome of materiality assessment.

The undertaking omits the disclosures in Sections 3,4, 5, and 6 pertaining to a topic, 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 provide a detailed explanation in the case of climate change.

When a topic is deemed material, information prescribed by requirements in:

Section 3 shall be included referred to the policies, actions and targets that are in place. If the undertaking has not adopted policies and/or actions with reference to the material matter concerned, it shall state this to be the case. For targets, if the undertaking has not set any, it does not need to explain it or disclose it. Sections 4, 5 and 6 is reported only when deemed material.

5. Do you agree with this approach?

Please select:

Yes

Please explain your answer:

Yes, the AFG agrees with this approach as it allows to focus on relevant topics for a company without over-complexifying reporting with non-needed extra-efforts for additional topics that does not capture the material impacts and risks for a company. The materiality assessment, if well executed, allows to focus on relevant topics and is central in ESRS structure. However, the AFG also agrees that some topics should not be based on materiality, as they are too important for not to be reported by a company (such as climate change).

Transitional provision - Approach to phase-ins

ESRS LSME ED includes the same list of phase-ins as in ESRS Set 1, which are applicable only to undertakings that will not choose to or that cannot opt-out (SNClS and captive insurance and reinsurance undertakings cannot opt-out) for the first 2 years (i.e., for those undertakings that will report from 2026). These phasing-in provisions are detailed in chapter 9.3 of section 1 of the ED.

To reflect the size of the SMEs in scope, the threshold of 750 employees for some Set 1 phasing-in provisions has been reduced to 50 employees.

To increase flexibility, the ED includes additional phase-in compared to ESRS Set 1:

DR S1-6 Training metrics: gender breakdown;

DR S1-9 Incidents and severe human rights impacts: reconciliation of monetary amounts; and

Reconciliations with financial statement: energy intensity based on net revenue and GHG intensity based on net revenue.

6. Do you agree with this approach taken on phase-ins?

Please select:

Yes

Please explain your answer:

Yes, this approach is essential for smaller companies or lesser sustainability-mature companies, which will need more time to set up reporting procedures and proceed to initiate ESG efforts. Companies that fall 50 employees should be able not to disclose every datapoints the 1st year but disclose some datapoints progressively.

7. Do you agree that the threshold of 50 employees should be applied to all undertakings in scope?

Please select:

Yes

Please explain your answer:

Yes, this threshold is more relevant for small companies than the threshold of 750 employees, which is relevant for large undertakings. That said, we remain flexible about the 50-employee figure itself and the possibility of increasing it if necessary.

“Report if you have approach” for important reporting areas not explicitly mentioned in the CSRD in relation to the ESRS LSME Standard:

Targets;

Due diligence;

Stakeholder engagement, interests and views of stakeholders;

Processes to engage with affected stakeholders;

Processes to remediate negative impacts and channels; and

Climate change transition plan.

In the ESRS LSME ED the above elements are treated under a “report if you have” approach. An undertaking shall disclose the related information only if it has those elements in place. If not, it does not need to include other information, except disclosure of whether or not it has a due diligence process in place, as this is an SFDR datapoint and needed by financial market participants.

In EFRAG’s opinion, the complete absence of these elements from the ED would have impaired the relevance of the reported information and failed to meet the users’ needs. The proposed approach was retained instead of having these elements as a voluntary disclosure (‘may report’), as an optional disclosure does not preserve the comparability across undertakings. The rationale behind the current approach (instead of having those requirements as a “may”) is to ensure standardisation and comparability of these disclosures.

8. Do you agree with this “report if you have” approach?

Please select:

Yes

If you answered ‘yes’ to the above question, do you think that the ED supports the identification of relevant items of reporting areas such as targets, due diligence, etc.? Please explain your answer.

Yes, the AFG agrees with the “report if you have” approach, although another approach that might also make sense while ensuring that companies don’t forget to disclose material information would have been for the company to report the absence of the items mentioned rather than report whether they exist.

If you answered ‘no’ to the above question, which changes would you suggest? Please explain your answer

7. QUESTIONS

Part A. Key questions about ESRS LSME ED (key questions as prioritised by the respondent):

A.2) Value chain implications of ESRS LSME ED and VSME ED

It is highly recommended to answer to the “Value chain implications of ESRS LSME ED and VSME ED” questions, due to the fact that CSRD requires that the European Sustainability Reporting Standards should not specify disclosures that would require large undertakings to obtain information from SMEs in their value chain that exceeds the information to be disclosed in accordance with ESRS LSME ED. EFRAG work identifies this requirement as “value chain cap”.

9. Please indicate if you would like to provide your feedback on the Value chain implications of ESRS LSME ED:

Yes

Value chain implications of ESRS LSME ED and VSME ED

Please refer to the text of LSME ESRS ED and VSME ED Approach to Value Chain Cap in Annex 3.

EFRAG is consulting at the same time on the content of the ESRS for listed SMEs (LSME ESRS ED) and the Voluntary Standard for non-listed SMEs (VSME ED). SMEs receive data requests from large undertakings for business and reporting reasons, including the CSRD reporting obligations using ESRS. To limit the amount of these requests, according to CSRD, ESRS should not specify disclosures that would require large undertakings to obtain information from SMEs in their value chain that exceeds the information to be disclosed in accordance with LSME ESRS ED. EFRAG work identifies this legal requirement as 'value chain cap'.

If in responding to this questionnaire you are interested in the role that LSME ED will play, please consider point a) below. If you are interested in the role VSME ED will play, please consider point b) below. If you are interested in both VSME ED and LSME ED, please consider both a) and b) below:

a) In developing LSME ESRS ED, EFRAG has scrutinised the datapoints in ESRS for large undertakings (Delegated Act Set 1) and has identified ten disclosures that result in large undertakings having to disclose about their value chain aspects, when material. These disclosures are illustrated in Annex 3 available at the following [\[link\]](#) and they are: SBM 1; SBM-3; IRO-1; PAT; Climate Transition plan; GHG emissions; GHG removal; substances of concern and substances of very high concern; resource inflows; entity specific disclosures. LSME ED has been developed as a simplified version of the content required in ESRS for large undertakings. The priority has been to include in LSME ESRS ED those requirements that correspond to the information needs of users of sustainability statements of undertakings in scope of LSME. After having identified the simplifications in LSME ESRS ED that are compatible with such users' needs, EFRAG has assessed the extent to which the simplifications would have impaired the feasibility of a complete coverage of the ten value chain disclosures mentioned above. EFRAG notes that there are no datapoints in the ED that have been added in the standard for the purpose of preserving the integrity of the reporting of large undertakings on their value chain, as all the datapoints in LSME ESRS ED are justified by specific needs of the users of LSME reporting. When considering the resulting content of LSME ESRS ED and its role in setting the value chain cap, EFRAG notes that some requests to SMEs from large undertakings may derive from specific arrangements between the SME and its corporate clients, due to business reasons. Therefore, EFRAG notes that the trickle-down effect due solely to ESRS reporting obligations of large undertakings (i.e. in isolation from business reasons) has been minimized in LSME ED, while allowing to maintain an appropriate coverage of the value chain information in the ESRS reporting obligations for large corporates. EFRAG also considered that the administrative burden required from SMEs in general to prepare such datapoints does not outweigh the informative and management benefits for them and for business partners and is commensurate with their resources.

b) Non-listed SMEs receive data requests from large undertakings, including due to reporting obligations in the CSRD. Jointly to the consultation on this voluntary standard for non-listed SMEs, EFRAG is also consulting on the content of ESRS for listed SMEs (ESRS LSME ED). While ESRS cannot result in large undertakings having to request disclosures that are not included in ESRS LSME ED, the VSME ED is intended to play a key role in supporting SMEs, when they prepare the information needed by large undertakings for ESRS reporting, as well as for other obligations including for business purposes. Therefore, VSME ED includes simplified disclosures that generally correspond to the reasonable expectations of ESRS Set 1 preparers (i.e. large undertakings that prepare their sustainability statement under ESRS). As a consequence, non-listed SMEs that apply VSME ED will in general be able to meet the data requests defined for value chain in LSME ED, except for very specific cases. These cases correspond to disclosures which are included in LSME ED (therefore SMEs may receive data requests from large undertakings relating to these disclosures, either due to their ESRS reporting obligations or for other obligations and business purposes), but are not included in the VSME ED, due to their excessive complexity for non-listed SMEs in general. They are principally of a sectorial nature (GHG Removals, substances of concern/high concern, resource inflows), mainly needed for management or specific arrangement purposes.

Please refer to Annex 3 *Approach to Value Chain Cap in ESRS LSME ED and VSME ED* for further details on a) and b) above.

Please note that the questions on the value chain cap here are the same as in the VSME questionnaire in part 3 and if you respond to both questionnaires, you do not need to repeat your answers.

10. Do you agree with the approach taken by EFRAG on the value chain cap?

Yes

Please explain the rationale for your answer.

Yes, this helps limit CSRD-related data requests from large companies. This approach limits the information that can be requested from LSMEs by large companies to that required for the ESRS ED LSME.

11. Please provide any other comment on the value chain cap, if any.

8. QUESTIONS

Part A. Key questions about ESRS LSME ED (key questions as prioritised by the respondent):

A.3) Sector specific guidelines

There are no sector-specific provisions in ESRS LSME ED according to CSRD and is sector agnostic.

The following question is included to get an orientation from the respondents on the approach to be taken by EFRAG on sector dimension for SMEs and it is also included in the VSME ED questionnaire.

Sustainability matters are highly dependent on the specificities of sectors. Disclosing sector-specific information would give a more complete picture of how the undertaking is addressing its sustainability impacts, risks, and opportunities (IROs) and increase its transparency towards various stakeholders (i.e., investors, lenders, civil society, users, etc.).

12. Which of the options presented below should EFRAG follow to support SMEs in addressing and reporting their sector specific IROs? Note that EFRAG is developing sector-specific standards¹⁴ for large undertakings.

14 EFRAG Sector Specific ESRS - EFRAG

Please select your recommended course of action for standard setting and guidance purposes on this matter

Undertakings applying ESRS LSME ED should apply on a voluntary basis sector specific guidelines and disclosures applicable to both listed and non-listed SMEs, to be issued by EFRAG as a non-authoritative annex to the future sector-ESRS.

Please provide your comments, if any.

Sector specific guidance can be very helpful for companies to address and report their specificities, as this guidance would be adapted for the size of these companies and have adapted content/structure compared to the one for large undertakings. Also, it would be worth highlighting the slight differences between the large and small and medium-sized company sectors. Regarding the production of two different guidelines for LSME and VSME, the AFG considers it would not be as useful as producing one different from the one for large companies.

9. QUESTIONS

Part B. Specific questions for each section of the ESRS LSME ED (detailed questions to respond per LSME section):

For each requirement in this section, you are asked to agree or disagree with the objective, content, structure and language of the disclosure requirements in the ED, including whether they achieve an acceptable balance between users' needs and proportionality for SMEs.

When responding, respondents may take into consideration the relevance of information, if the disclosure requirement is located appropriately in the standards, and if the disclosures are clear enough, taking also into account the application requirements per each requirement.

B.1) Section 1: General requirements

13. Please indicate your agreement or not in the following Table with the proposed approach to simplify the general requirements, as included in Section 1 of ESRS LSME ED:

	Please select :		Please provide rationale for any disagreement and proposed amendments
	Agree	Disagree	
<p>Impacts; Risks and Opportunities</p> <p><u>Main simplifications compared to ESRS Set 1:</u> The disclosures shall cover material negative impacts and risks. Disclosures about opportunities and positive impacts are voluntary (mandatory in ESRS Set 1).</p>	X		
<p>6.1 Presenting comparative information</p> <p><u>Main simplifications compared to ESRS Set 1:</u> Comparative information is not required when it requires more than reasonable effort (ESRS Set 1 - 'when impracticable'). The undertaking shall disclose this to be the case.</p>		X	When it is not possible with reasonable effort to adjust comparative information for one or more prior periods, the undertaking should not only disclose this fact but also explain why the comparative information are not available or how efforts that would be made to adjust comparative information are unreasonable for the undertaking
<p>6.2 Sources of estimation and outcome uncertainty</p> <p><u>Main simplifications compared to ESRS Set 1:</u> Simplified criteria to judge materiality of a possible future event</p>	X		
<p>6.3 Updating disclosures about events after the end of the reporting period</p> <p><u>Main simplifications compared to ESRS Set 1:</u> Required if possible with reasonable effort. If not, only narrative information to be disclosed. Disclosure of effects of events after the end of the reporting period have been eliminated.</p>	X		
<p>6.5 Reporting errors prior period</p> <p><u>Main simplifications compared to ESRS Set 1:</u> Restating the comparative amounts not required if not possible with reasonable effort (ESRS Set 1 - 'when impracticable'). The undertaking shall disclose this to be the case.</p>	X		
<p>6.7 Matters in course of negotiation</p> <p><u>Main simplifications compared to ESRS Set 1:</u> Besides intellectual property, the ED allows undertakings to omit (refer to BP-1) exceptionally, information about impending developments or matters subject to negotiation (ability in ESRS Set 1 depends on Member States' actions).</p>	X		

14. If you agree with the substance of the requirements of the table above, please provide your suggested improvement, if any (please specify the relevant requirement).

For the point 6.1 and 6.3, the term "reasonable" should be explicated. Otherwise, the AFG suggests asking to companies to explain how the efforts they would have to do would be "unreasonable".

For the point 6.7, the justification should be provided and disclosed by the company.

10. QUESTIONS

Part B. Specific questions for each section of the ESRS LSME ED (detailed questions to respond per LSME section):

B.2) Section 2: General Disclosures

15. Please indicate your agreement or not in the following Table with the proposed approach to simplify ESRS Set 1 ESRS 1 *General disclosures*, as included in Section 2 of ESRS LSME ED:

	Please select:		Please provide rationale for any disagreement and proposed amendments
	Agree	Disagree	
<p>DR-1 (BP 1) - General basis for preparation of the sustainability statement and DR-2 (BP 2) - Disclosures in relation to specific circumstances</p> <p><u>Main simplifications compared to ESRS Set 1:</u> Reduced granularity of value chain estimation. Option to not provide restated comparative figures when not possible with reasonable effort.</p>	X		
<p>DR-3 (GOV 1) - The role of the administrative, management and supervisory bodies</p> <p><u>Main simplifications compared to ESRS Set 1:</u> Reduced granularity, simplified (EU datapoints are kept) and included parts of Set 1 GOV-2 (points c) and d)</p>	X		
<p>DR-4 (GOV 2) – Due diligence</p> <p><u>Main simplifications compared to ESRS Set 1:</u> Requirement to disclose whether it has implemented a due-diligence process or not (EU datapoint). Paragraphs 58-61 of ESRS 1 Set 1 have been excluded.</p>	X		
<p>DR-5 (SBM 1) - Strategy, business model and value chain</p> <p><u>Main simplifications compared to ESRS Set 1:</u> Rather than revenue breakdown, disclosure of list of significant ESRS sectors in which the undertaking operates.</p>	X		
<p>DR-6 (SBM 2) - Interests and views of stakeholders</p> <p><u>Main simplifications compared to ESRS Set 1</u> Interests and views of stakeholders to be</p>	X		

disclosed only if stakeholder engagement occurs. Specific AR.			
DR-7 (SBM-3) - Material impacts and risks and their interaction with strategy and business model <u>Main simplifications compared to ESRS Set 1:</u> Reduced granularity with information about the resilience of its strategy and business model not required.		X	The AFG thinks that the resilience of the companies' strategy and business model should be included, as it is a central part of the sustainability of the business model of companies
DR-8 (SBM 4) - Material opportunities and positive impacts as voluntary content <u>Main simplifications compared to ESRS Set 1:</u> Voluntary	X		
DR-9 (IR 1) - Processes to identify and assess material impacts and risks <u>Main simplifications compared to ESRS Set 1:</u> IRO-1 specifications in topical standards summarised centrally requiring to identify and assess material impact and risks.		X	The AFG thinks that the disclosure requirement in ESRS 2 SBM-3 par. 53 (a) related to methodologies and assumptions should be included, as identification/assessment results may vary a lot depending on assumptions and method used

16. If you agree with the substance of the requirements of the table above, please provide your suggested improvement, if any (please specify the relevant requirement).

N/A

EFRAG SRB and SR TEG extensively discussed the inclusion or not of the requirement about climate resilience analysis and relevant Application Requirements in SBM-3, which is not explicitly mentioned in the CSRD. Therefore and in order to simplify the ED, this requirement is not included in ESRS LSME SBM-3.

17. Would you like to reinsert the “information about the resilience of the undertaking’s strategy”?

Please select:

Yes

Please explain your answer

Yes, as the AFG thinks that the resilience of the companies' strategy and business model should be included, at least on a voluntary basis, as it is a central part of the sustainability of the business model of companies.

EFRAG SRB and SR TEG discussed the possibility, for simplification reasons, to group in one data point the requirements for the information related to current financial effects and anticipated financial effects in SBM-3 (see par. 35 c) and d)). These were kept as separate datapoints (same as in ESRS Set 1), considering that they respond to two different information needs.

18. Do you agree with this approach?

Please select:

Yes

Please explain your answer

Yes, the AFG agrees that these points should remain separated as they cover different timeframes (annual reporting period for one, short/mid/long-term for the second) with potential different approaches and different impacts/risks for companies.

11. QUESTIONS

Part B. Specific questions for each section of the ESRS LSME ED (detailed questions to respond per LSME section):

B.3) Section 3: Policies, actions and targets

19. Please indicate your agreement or not in the following Table with the proposed approach to simplify ESRS Set 1 disclosure requirements, as included in Section 3 of ESRS LSME ED:

	Please select :		Please provide rationale for any disagreement and proposed amendments:
	Agree	Disagree	
MDR20 -P, MDR-A <u>Main simplifications compared to Set 1:</u> Topic agnostic in this section.	X		
Policies and Actions across ESRS E1-E5 and S1-S4 <u>Main simplifications compared to Set 1:</u> Topic-specific information: Environmental and Social Policies and Actions disclosures in ESRS Set 1 (E1 to E5 and S1 to S4) centralised, harmonised and simplified in related AR.	X		
MDR-T <u>Main simplifications compared to Set 1:</u> Topic agnostic: Reduced number of MDR. "Report if you have" component ²¹ .	X		
Targets across ESRS E1-E5 and S1-S4 <u>Main simplifications compared to Set 1:</u> Treated as topic specific information: Environmental and Social Targets disclosure in ESRS Set 1 (E1 to E5 and S1 to S4) centralised, harmonised and simplified in related AR as "Report if you have" component. Changed to voluntary.	X		
Processes for engaging with own workforce, workers in the value chain, affected communities, consumers and end-users, and their representatives about impacts <u>Main simplifications compared to Set 1:</u> Centralised disclosure under policies and actions	X		
Processes to remediate negative impacts and channels for own workforce, workers in the value chain, affected communities, consumers and end-users to raise concerns <u>Main simplifications compared to Set 1:</u> Centralised disclosure under policies and actions	X		

20 MDR: Minimum Disclosure Requirement.

²¹ Please refer to Annex 2 for more details on the approach to Targets in Section 3 of the ED.

20. If you agree with the substance of the requirements of the table above, please provide your suggested improvement, if any (please specify the relevant requirement).

N/A

12. QUESTIONS

Part B. Specific questions for each section of the ESRS LSME ED (detailed questions to respond per LSME section):

B.4) Section 4: Environment

21. Please indicate your agreement or not in the following Table with the proposed approach to simplify ESRS Set 1 metrics, as included in Section 4 of ESRS LSME ED:

	Please select:		Please provide rationale for any disagreement and proposed amendments
	Agree	Disagree	
<p>DR E1-1 Energy consumption and mix</p> <p><u>Main simplifications compared ESRS Set 1:</u> Reduced granularity for renewables</p>	X		
<p>DR E1-1 Energy intensity based on net revenue</p> <p><u>Main simplifications compared ESRS Set 1:</u> Same as ESRS Set 1 (SFDR T1, #6) but simplified the reconciliations and added 1-year phase-in.</p>	X		
<p>DR E1-2 Gross Scopes 1, 2, 3 and Total GHG emissions</p> <p><u>Main simplifications compared ESRS Set 1:</u> Simplified, reduced breakdowns and added an “if applicable” principle in EU ETS and market-based methods.</p>	X		
<p>DR E1-2 GHG intensity based on net revenue</p> <p><u>Main simplifications compared ESRS Set 1:</u> Same as ESRS Set 1 (SFDR T1, #3) with sentence about proper reconciliations and an 1-year phase-in. Also a specification for SNCIs23 on GHG intensity per net revenues.</p>	X		
<p>DR E1-3 GHG removals and GHG mitigation projects financed through carbon credits</p> <p><u>Main simplifications compared ESRS Set 1:</u> Reduced granularity and simplified in terms of what is being disclosed / added “if applicable”. Deleted contribution to removals in value chain. Deleted requirement about plans to cancel carbon credits and methodology on residual emissions near net-zero.</p>	X		
<p>DR E1-4 Anticipated financial effects from material physical and transition risks and potential climate-related opportunities</p> <p><u>Main simplifications compared ESRS Set 1:</u> Simplified (EU datapoints kept). Merged the significant amounts of net revenue and assets at physical and transition risks in one single datapoint ((a) and b)) in Set 1 and simplified the reconciliation (only requiring line items are affected).</p>	X		
<p>DR E2-1 Pollution of air, water and soil</p> <p><u>Main simplifications compared ESRS Set 1:</u> Same as ESRS Set 1 (SFDR T2, #1, #2 and #3, T1, #8) /added some ARs that clarify the disclosure of EPRTR regulation</p>	X		
<p>DR E2-2 Substances of concern and substances of very high concern</p> <p><u>Main simplifications compared ESRS Set 1:</u></p>	X		

Same as ESRS Set 1			
DR E3-1 Water consumption			
<u>Main simplifications compared ESRS Set 1:</u> Same as ESRS Set 1 (SFDR T2, #6.2 and #6.1). Included disclosure for SNCIs on water intensity ratios.	X		
DR E4-1 Impact metrics related to biodiversity and ecosystems change			
<u>Main simplifications compared ESRS Set 1:</u> Reduced granularity but kept the disclosures regarding invasive alien species and Life Cycle Assessment.		X	Biodiversity transition plan deleted
DR E5-1 Resources inflows			
<u>Main simplifications compared ESRS Set 1:</u> Simplified and reduced granularity	X		
DR E5-2 Resources outflows			
<u>Main simplifications compared ESRS Set 1:</u> Kept the EU Law datapoints (SFDR T2, #13, T1, #9) but simplified and reduced granularity	X		
DR E6 – Anticipated financial effects from material environmental-related matters other than climate			
<u>Main simplifications compared ESRS Set 1:</u> Financial effects on pollution, water, biodiversity and circular economy were simplified and centralised. Financial effects for climate were retained as separate simplified DR due to the number of EU datapoints it contains.	X		

23 SNCIs: Small and Non-Complex Institutions.

22. If you agree with the substance of the requirements of the table above, please provide your suggested improvement, if any (please specify the relevant requirement).

The AFG does not think that biodiversity transition plan should be deleted in DR E4-1 Impact metrics related to biodiversity and ecosystems change. As the disclosure of a biodiversity transition plan is already optional in ESRS E4, maybe the ESRS LSME could also mention that the undertaking may disclose its transition plan regarding biodiversity preservation on a voluntary basis, with possibility of a phase-in approach if necessary.

AR 46b) of ESRS Set 1 E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions (link [here](#)) is kept in ESRS LSME ED. It specifies that financial institutions, when preparing the information on gross Scope 3 GHG emissions, shall consider the GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting Financial (PCAF), specifically part A “Financed Emissions” (version December 2022).

While it includes financed emissions in Scope 3 accounting, ESRS Set 1 does not include detailed guidance on the disclosure breakdown for those emissions. Do you agree that such more detailed guidance is better placed in the future sector standards?

23. In your view as SNCI or investor, should this ED anticipate detailed guidance on disclosure breakdown for financed emissions?

Please select:

Yes

Please explain your answer:

Yes, more detailed guidance should be included in future sector standards based on the GHG Accounting and Reporting Standard for the Financial Industry recommendations, as it will simplify documentation research LSME will need to carry out to meet the requirements of the ESRS LSME.

The SRB discussed and approved adding a specification for SNCIs on the disclosure of GHG intensity based on net revenue and of water intensity (both SFDR indicators) in ESRS LSME ED Section 4 (E1-2 – *GHG intensity based on net revenue* and E3-1 – *Water consumption*). The following specification is added in the two respective disclosure requirements in the ED:

“Small and non-complex credit institutions (see Section 1 par. 2b)) may replace net revenue with a different financial indicator, until a sectoral standard is established”

Financial institutions may need to use different, more specific financial indicators from their relevant financial statements line items to disclose GHG and water intensity ratios. At the time, this ED does not indicate an alternative ratio to be used which would support comparability, pending the issuance of sector-specific ESRS.

24. Do you agree with the SNCIs having the option to use the proposed approach that allows the use of different metrics (rather than net revenues) to determine GHG emission intensity and water intensity?

Please select:

Yes

Please explain your answer:

Yes: As a sectoral standard for Small and non-complex credit institutions is not established yet, SNCIs should be able to use the most relevant metrics to determine GHG emission intensity/water intensity of their activities.

13. QUESTIONS

Part B. Specific questions for each section of the ESRS LSME ED (detailed questions to respond per LSME section):

B.5) Section 5: Social

25. Please indicate your agreement or not in the following Table with the proposed approach to simplify ESRS Set 1 metrics, as included in Section 5 of ESRS LSME ED:

	Please select :		Please provide rationale for any disagreement and proposed amendments
	Agree	Disagree	
DR S1-1 Characteristics of employees			
<u>Main simplifications compared to ESRS Set 1:</u> In Set 1 S1-6. Simplified, reduced granularity	X		
DR S1-2 Characteristics of non-employees:			
<u>Main simplifications compared to ESRS Set 1:</u> In Set 1 S1-7. Simplified, reduced granularity	X		
DR S1-3 Collective bargaining coverage and social dialogue			
<u>Main simplifications compared to ESRS Set 1:</u> In Set 1 S1-8. Simplified, reduced granularity. Social dialogue deleted		X	As the social dialogue in ESRS S1-8 only requires 2 metrics, one of which is qualitative (Yes/no question), deleting these requirements does not seem very justified from the AFG point of view
DR S1-4 Adequate wages			
<u>Main simplifications compared to ESRS Set 1:</u> In Set 1 S1-10. Thresholds for disclosing country information included. Subject to materiality assessment.	X		
DR S1-5 Social protection			
<u>Main simplifications compared to ESRS Set 1:</u> In Set 1 S1-11. Simplified. Datapoint on countries where people do not have social protection and type of employees who do not have social protection now voluntary.	X		

DR S1-6 Training metrics <u>Main simplifications compared to ESRS Set 1:</u> In Set 1 S1-13. Focus on training. Reduced granularity and phase-in for gender breakdown included in Section 1 (Appendix C)	X		
DR S1-7 Health and safety metrics <u>Main simplifications compared to ESRS Set 1:</u> In Set 1 S1-14. Only SFDR indicators were kept.	X		
DR S1-8 Remuneration metrics <u>Main simplifications compared to ESRS Set 1:</u> In Set 1 S1-16. Simplified by deleting datapoint on contextual information. SFDR indicators kept.	X		
DR S1-9 Incidents and severe human rights impacts and incidents <u>Main simplifications compared to ESRS Set 1:</u> In Set 1 S1-17. Reduced granularity and changed reconciliation, focus on incidents and severe human rights impacts. A phase-in was also added in Section 1 (Appendix C)	X		
DR S1-10 Diversity <u>Main simplifications compared to ESRS Set 1:</u> In Set 1 S1-9 and S1-12. Diversity indicators and Persons with disabilities are merged. Granularity reduced.	X		
S1-11 Work-life balance metrics <u>Main simplifications compared to ESRS Set 1:</u> In Set 1 S1-15. Changed to voluntary disclosure.	X		

26. If you agree with the substance of the requirements of the table above, please provide your suggested improvement, if any (please specify the relevant requirement).

In ESRS Set 1, social dialogue in ESRS S1-8 only requires 2 metrics (the global percentage of employees covered by workers' representatives, reported at the country level for each EEA country in which the undertaking has significant employment; and the existence of any agreement with its employees for representation by a European Works Council (EWC), a Societas Europaea (SE) Works Council, or a Societas Cooperativa Europaea (SCE) Works Council.) Deleting these requirements does not seem very justified from the AFG point of view as they are not complex to set up.

14. QUESTIONS

Part B. Specific questions for each section of the ESRS LSME ED (detailed questions to respond per LSME section):

B.6) Section 6: Business conduct

27. Please indicate your agreement or not in the following Table with the proposed approach to simplify ESRS Set 1 metrics, as included in Section 6 of ESRS LSME ED:

	Please select :		Please provide rationale for disagreement and proposed amendments
	Agree	Disagree	
DR G1-1 – Management of relationships with suppliers <u>Main simplifications compared to Set 1:</u> G1-2 and G1-6 defined in ESRS Set 1 G1 have been simplified and merged		X	The undertaking may disclose information on its purchasing practice / procedure and whether it considers also ESG criteria - this requirement should be mandatory
DR G1-2 Anti-corruption and anti-bribery <u>Main simplifications compared to Set 1:</u> G1-3 and G1-4 defined in ESRS Set 1 G1 have been simplified and merged	X		
DR G1-3 – Political influence and lobbying activities <u>Main simplifications compared to Set 1:</u> Kept and simplified par. 29 of G1-5 defined in ESRS Set 1 G1.	X		

28. If you agree with the substance of the requirements of the table above, please provide your suggested improvement, if any (please specify the relevant requirement).

The point of view of the AFG on this simplification is that the integration of ESG criteria in any purchasing practice/procedure should be disclosed by the undertaking on a mandatory basis. The AFG suggest changing the sentence "The undertaking may disclose information on its purchasing practice / procedure and whether it considers also ESG criteria" for "The undertaking shall disclose information on its purchasing practice / procedure and whether it considers also ESG criteria".

29. Is there any information that the ESRS LSME ED should further cover?

N/A

30. Do you have any other comments?

N/A

15. Additional items

31. If you want to provide additional comments in a document, please upload your file here

16. Thank You!

Thank you for taking our field test. Your response is very important to us.