Eurosif response

Brussels – 21 May 2024

EFRAG Public Consultation on the LSME Exposure Draft

Executive Summary

- Eurosif welcomes this consultation on the LSME Exposure Draft. High-quality, comparable, and reliable corporate sustainability-related disclosures are a cornerstone of the EU sustainable finance framework. Sustainability-related disclosures are essential for accelerating the transition to a sustainable economy. The European Commission estimates that an additional €700 billion in investments is needed annually to meet the EU's climate targets[1]. A significant portion of these investments will have to be leveraged by the private sector. SMEs represent 99% of all business in the EU, constitute more than half of the EU's GDP and employ about 100 million people, hence they have a very important role to play.

- Sustainability-related disclosures are essential in enabling investors to make informed investment decisions, in ensuring adequate risk management, and in allocating capital in line with their clients' sustainability preferences. Disclosing quality, comparable and reliable sustainability information is also useful for companies to show their efforts, successes and progress regarding sustainability matters, improve their reputation and attract further capital. Investors and other financial institutions including banks and insurance companies, also need sustainability-related disclosures to prepare their own sustainability-related disclosures, such as those under the Sustainable Finance Disclosure Regulation (SFDR), Pillar 3 and Solvency II. Information from the value chain is also increasingly sought and needed.

- While we agree that SMEs in principle should be subject to a simplified standard given their more limited resources compared to large companies, we would like to highlight an important difference between SMEs with securities listed on EU Regulated Markets (which this consultation targets) and real, "corner-shop" SMEs which will be subject to a voluntary standard. It has always been considered that companies that decide to list their securities on Regulated Markets should be subject to the highest, gold-standard of excellence to ensure investor protection. Differentiating requirements and standards for companies within the same stock exchange category is problematic and can lead to problems with comparability between companies. MiFID II has created separate market venues, so-called SME Growth Markets, that Multilateral Trading Facilities (MTFs) can apply for. For SME Growth Markets it is reasonable to consider alleviated disclosure requirements. That is not really the case for the companies with securities listed on Regulated Markets. Therefore, **while fully agreeing with the need for a simplified voluntary standard for SMEs, in the case of the listed SME standard, we call we call for these standards to be aligned as closely as possible on the sector-agnostic standards, especially in terms of their structure but also specific disclosures.** This would increase the usability of the reports by ensuring

[1] https://finance.ec.europa.eu/document/download/ff44591e-9d83-4027-a079-f3fe23bbaf41_en?filename=240129-sf-platform-report-market-practices-compendium-report_en.pdf

information is easily comparable, machine readable and accessible. We believe this would also be beneficial to the reporting companies for several reasons.

  - Firstly, as companies grow and move on the funding escalator, it would be easier for them to adjust to the standard for large companies.
  - Secondly, some well-intentioned simplifications, resulting in some information not being disclosed, could lead to the opposite result when investors or other business partners continue to send bespoke questionnaires if the information, they require is not included in the sustainability reports prepared in line with LSME ESRS.
  - Finally, there seem to be some open questions around the interaction between standards. For example, whether an SME which is part of a group but wishes to report as a standalone business would make it necessary for the investor to work with two different standards. Also, significant differences between the standards, especially in the structure, could create challenges regarding machine readability and working with the European Single Access Point (ESAP).

- We disagree with the restructuring and proposed simplifications especially of some sections (Governance -GOV, environmental disclosures, especially on transition plans and targets, and business conduct) which in reality reduce of lot of useful information for the reporting companies and would result in disclosures which are inconsistent and not comparable for the information users. While major simplifications, including a changed structure, can be justified for VSME, LSME should be as close as possible to ESRS Set 1. Also, some of the simplifications consist of simply merging certain disclosures and data points which will not result in any simplification but will reduce the (machine) readability and usability of information for users.

- We are particularly concerned about sustainability-related governance disclosures, in particular GOV 1, and the elimination of GOV 2, GOV 3 and GOV 5. Governance is the basis of any performance and understanding to what extent sustainability matters are discussed in different governance bodies, what is the board's expertise on sustainability matters, whether the sustainability matters are integrated in the company's strategy, and whether the board sets sustainability-related targets or at least oversees their setting and execution, is very important in terms of understanding the company's resilience to climate change and other sustainability challenges and its mid- to long-term performance. While there are various other disclosures which are not as important and could be made voluntarily or deleted (e.g. invasive alien species or work-life balance), these are really core disclosures. On governance-related matters, IFRS S1 and S2 seem to offer a higher level of ambition. We call on EFRAG to remedy that and retain GOV 1, GOV 2, GOV 3 and GOV 5 as in ESRS Set 1.

- We would like to reiterate our support for stronger requirements to ensure the abovementioned SFDR/Benchmarks Regulation/Pillar 3 data points and data points on key climate metrics such as GHG emission scopes 1, 2 and 3 are effectively disclosed by companies. However, we understand the necessity for consistency between this LSME ED and the materiality approach taken in ESRS Set 1. As such, we welcome the extent to which EFRAG takes a specific approach to ensure consistency in the data points necessary to comply with the SFDR/Benchmarks/Pillar 3 disclosure requirements, as well as the disclosure of value chain information in this ED.

Responses to detailed questions

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

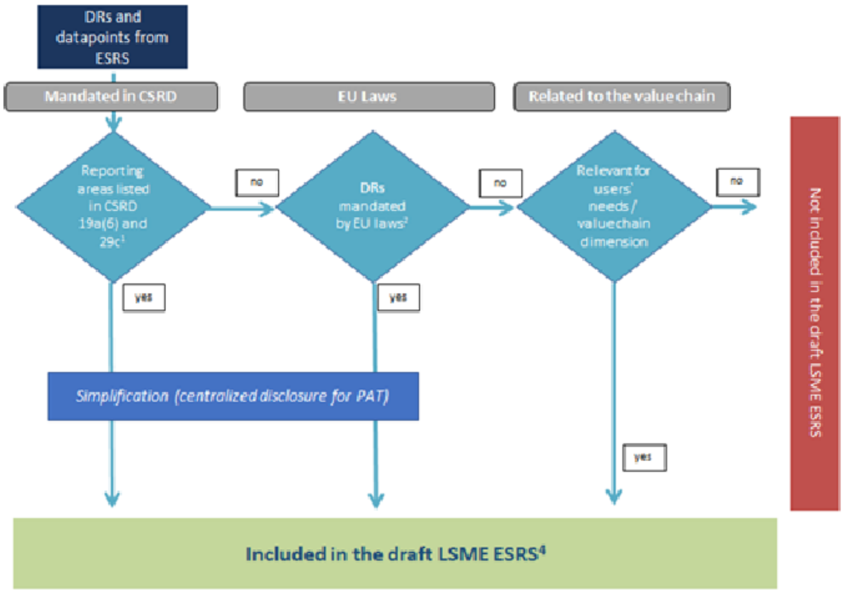
A.1): Methodological approach and general principles

The "decision tree" to develop the ESRS LSME ED

The CSRD identifies the minimum content [2] 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:

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

[2] "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)."



Note 1: Art. 29c refers to the criteria set out in Art. 29b point 2 to 5
Note 2: EU laws limited to SFDR, Pillar 3, benchmark regulation, climate law and Taxonomy Regulation art. 8
Note 3: ESRS Set 1 has been deeply scrutinised during the drafting of LSME, to achieve the maximum level of simplification, while providing a reporting that is able to meet the needs of LSME investors. As a second step, the resulting potential losses of information in the value chain dimension of Set 1 preparers have been considered
Note 4: VSME ED has considered also EFRAG PTF cluster 8 proposal as a possible minimum content

(d)

Q1) Do you agree with the approach adopted to develop LSME ED as a simplification of the content of ESRS Set 1?

Yes / No – Please explain your answer

High-quality, comparable, and reliable corporate sustainability-related disclosures are a cornerstone of the EU sustainable finance framework and essential for accelerating the transition to a sustainable economy. Investor and other finance providers need sustainability-related disclosures to make informed investment / financing decisions, to ensure adequate risk management and allocation of capital in line with their clients' sustainability preferences. Moreover, investors and other financial institutions including banks and insurance companies need sustainability-related disclosures to prepare their own sustainability-related disclosures, such as those under the Sustainable Finance Disclosure Regulation (SFDR), Pillar 3 and Solvency II. Information from the value chain is also increasingly sought and needed.

In view of the above, yes, we fully agree with the approach adopted, meaning that LSME ED has been developed as a simplification of the content of ESRS Set 1. Comparability and maximum alignment is key to ensure information is useful for its users.

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 "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 datapoints" metrics are omitted as deemed not material, a specific disclosure is required confirming that they are not material.

Q2) Do you agree with this approach on EU datapoints?

Yes / No – Please explain your answer

We agree with the approach on EU datapoints which is in line with ESRS Set 1. Consistency with Set 1 is a high priority for investors and other financial institutions, providing them with comparable information across a wide range of companies regardless of their size. Also, as mentioned in the response to Q1, investors and other financial institutions need SFDR/Benchmarks Regulation/Pillar 3 datapoints in particular to comply with their own disclosure requirements. It would be helpful that LSME ESRS also requires this information to be presented in a summary table including an overview of all disclosures and whether they are considered material, in line with ESRS Set 1.

However, we would like to recall that investor and other financial institutions call for making all EU datapoints mandatory in ESRS Set 1. Please see this joint investor letter for more details.

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 letter 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.

Q3) Do you agree with this approach?

Yes / No – Please explain your answer

We understand the reasoning behind this decision which indeed is valid for voluntary SME standards, but not for the listed SME standards. We would like to recall we are talking about companies with securities listed on EU Regulated Markets (not even SME Growth Markets). Such companies are not corner shops and should disclose information that is useful to a broad range of investors, including international investors. We understand that maybe not all disclosures should be required, but those that are should be aligned to the extent possible with ESRS Set 1, meaning also with IFRS S1 and IFRS S2.

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.

Q4) Do you agree with this approach taken on entity-specific disclosure?

Yes / No – Please explain your answer

We agree with this approach which ensures consistency with ESRS Set 1.

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:

a) 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.

b) Sections 4, 5 and 6 is reported only when deemed material.

Q5) Do you agree with this approach?

Yes / No – Please explain your answer

We agree with adopting an approach which is in line with ESRS Set 1. However, as a reminder, together with many investors and investor organisations we have been asking for a more ambitious approach whereby certain key information (EU datapoints, climate disclosures and certain social disclosures) are considered always material. Moreover, especially for certain information (e.g. on targets when the topic is considered material) it would be helpful to have an explanation and an indication whether such targets will be considered for adoption in the future.

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 by undertakings that will not choose to or that cannot opt-out (SNCIs 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.

Q6) Do you agree with this approach taken on phase-ins?

Yes / No – Please explain your answer

We would suggest following the same approach as in ESRS Set 1. Also, the information proposed for phase-in does not seem that difficult to obtain / calculate.

Q7) Do you agree that the threshold of 50 employees should be applied to all undertakings in scope?

Yes / No – Please explain your answer

no answer

"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.

Q8) Do you agree with this "report if you have" approach?

Yes / No

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. If you answered 'no' to the above question, which change would you suggest ? Please explain your answer.

Yes, the proposed approach ("report if you have") seems a good way forward to ensure transparency on such important matters. And indeed, it helps companies identify the most important reporting areas.

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".

Q9) Please indicate if you would like to provide your feedback on the Value chain implications of ESRS LSME ED:

() YES [QUESTIONS AND CONTENT IN GREEN BELOW WILL APPEAR]

Value chain implications of ESRS LSME ED and VSME ED

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

Q9.1) Do you agree with the approach taken by EFRAG on the value chain cap?

Yes, the proposed approach is sensible from our point of view. Overall, it is important to ensure as close alignment as possible between LSME and ESRS Set 1 and also VSME, while especially in the latter case considering the more limited resources of SMEs not covered by CSRD. Value chain information is crucial to ensure large companies can prepare reliable disclosures in line with ESRS Set 1 and that investors and other finance providers can take informed investment / financing decisions.

Q9.2) Please provide other comments on the value chain cap, if any

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 may be 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.).

Q10) 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 standards [3]for large undertakings. [PLEASE SELECT ONE]

1. Undertakings applying ESRS LSME ED should apply on a voluntary basis existing reporting practices, without specific EFRAG guidance.

2. Undertakings applying ESRS LSME ED should apply, on a voluntary basis, the content of the future Sector ESRS for large undertakings.

SMEs with securities listed on Regulated Markets are not "corner shop" SMEs. These are companies which are not that small and usually have considerable resources if they decided to go through the IPO. Rules on Regulated Markets should follow the gold standard and ensure investors obtain the information they need to assess the risks and the impacts. This is to enable them to make informed investment decisions and also ensure investor protection.

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

4. 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.

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

Q11) 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:

ESRS LSME ED	Agree	Disagree	Please provide rationale for any disagreement and proposed amendments	Main simplifications compared to ESRS Set 1
Impacts; Risks and Opportunities	X			The disclosures shall cover material negative impacts and risks. Disclosures about opportunities and

[3] EFRAG Sector Specific ESRS - EFRAG

				positive impacts are voluntary (mandatory in ESRS Set 1).
6.1 Presenting comparative information	X			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.
6.2 Sources of estimation and outcome uncertainty	X			Simplified criteria to judge materiality of a possible future event.
6.3 Updating disclosures about events after the end of the reporting period		X	Eliminating the disclosure of narrative information on the effects of events occurring after the reporting period could lead to investors not receiving important information.	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.
6.5 Reporting errors prior period	X			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.
6.7 Matters in course of negotiation	X			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).

Q12) 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).

B.2) Section 2: General Disclosures

Q13) 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:

ESRS LSME ED	Agree	Disagree	Please provide rationale for any disagreement and proposed amendments	Main simplifications compared to ESRS Set I
DR-1 (BP 1) – General basis for preparation of the sustainability statement and DR-2 (BP 2) – Disclosures in relation to specific circumstances		X	While we appreciated the intent to make the DR more proportionate for LSMEs, the description of the level of accuracy of the value chain estimation is important for the information users to understand the level of reliability of the disclosure. Also, as the company will have to go through the process anyway, there is no challenge about obtaining the information.	Reduced granularity of value chain estimation. Option to not provide restated comparative figures when not possible with reasonable effort
DR-3 (GOV 1) - The role of the administrative, management and supervisory bodies		X	We are very much against the simplifications introduced to GOV 1. Firstly, the ESRS should cover all E, S and G matters. And good governance is the cornerstone of good sustainability and financial performance. Meanwhile, disclosures related to governance are already very limited in ESRS Set 1. Secondly, the simplifications introduced can be divided into three categories: 1) very marginal wording changes which do not make any major difference in terms of simplification; 2) some changes which are not true simplifications but rather combining some datapoints which ultimately will not ease the burden but will make comparability for investors more difficult and create issues with machine readability of information;	Reduced granularity, simplified (EU datapoints are kept) and included parts of Set 1 GOV-2 (points c) and d)

			3) removal of very important disclosures or asking to disclose very different information (e.g. changing "how the administrative, management and supervisory bodies and senior executive management **oversee the setting of targets** related to material impacts, risks and opportunities, and how they **monitor progress** towards them" to a mere description of the process how they are informed about (i) material impacts and risks and (ii) the policies, actions, targets adopted to address them and (iii) the respective results and metrics in place, if such process is in place, and how frequently the bodies meet. The introduced simplification very much changes the meaning of the disclosure and implies the board should not be involved in overseeing such matters which actually should be the case. At the same time ESRS is only about disclosures, so in any case, if the board of the company does not oversee such matters, even in case of a disclosure as per ESRS Set 1, the company can explain that.) Overall, in particular 3) is very problematic as how sustainability risks and impacts are considered by the governance bodies and how they are incorporated into the company's strategy is among the most important information to investors and other stakeholders because it has a profound effect on the risk management, resilience of the company and its mid to long-term financial performance. We strongly call for maintaining the wording of GOV 1 as in ESRS Set 1, and also retaining GOV 2, GOV 3 and GOV 5 as in ESRS Set 1. While GOV 2 has been merged into GOV 1, GOV 3, which is about the disclosure of the integration of sustainability-related performance in incentive schemes, and GOV 5 on risk management and internal controls over sustainability reporting have	

			been completely removed which is highly problematic. Once again, ESRS is about disclosures, so if companies do not integrate sustainability into performance schemes, they can simply say so. But for investors it is important to have such information if companies do so. Also, consideration of sustainability risks is increasingly recognised by policy makers, regulators and investors and an essential part of risk management. Hence, the deletion of this disclosure requirement is even more surprising. Also, merging GOV 2 into GOV1 is not helpful for information users as it undermines the proper structure, readability, as well as comparability with ESER Set 1. Finally, once again we would like to recall this is a standard for companies with securities listed on Regulated Markets meaning such companies are not small corner shops but resourceful companies that had the means to go through an IPO and should follow the gold standard in terms of rules and market standards. We call on EFRAG to keep the exact wording of GOV 1, GOV 2, GOV 3 and GOV 5 as in ESRS Set 1.	
DR-4 (GOV 2) – Due diligence	X		This is a very important disclosure, which is also needed for compliance with other EU sustainable finance rules, and we are calling for it to be retained. The approach on a report-if-you-have basis reflects that carrying due diligence is not a requirement, whilst recognising that information about due diligence processes is important for understanding the approach of the company to sustainability beyond standardised metrics.	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.
DR-5 (SBM 1) - Strategy,		X	Many of the proposed simplifications would result in disclosures that are missing important information. These include:	Rather than revenue breakdown, disclosure of

business model and value chain			1) a breakdown of total revenue of products and services that are banned in certain markets which is anyway highlighted as "where applicable and material"; 2) "(g) the elements of the undertaking's strategy that relate to or impact sustainability matters, including the main challenges ahead, critical solutions or projects to be put in place, when relevant for sustainability reporting". Regarding the headcount of employees by geographical areas, the rationale for the deletion of this data point is that this information can be found elsewhere. However, from the user perspective if it would be helpful to have it in this section, also allowing for comparability and interoperability with ESRS Set 1. Meanwhile, as the company has this information anyway, it does not seem much added burden to include it here.	list of significant ESRS sectors in which the undertaking operates.
DR-6 (SBM 2) - Interests and views of stakeholders	X		As a compromise, we support the proposed approach. However, if the company engages with stakeholders, and hence would disclose the information, it would be useful to suggest it describes also iii) how it is organised; and iv) its purpose, as in ESRS Set 1, given it is important information. Also, while we understand the simplification intent in removing the subpoints of point c), it requires further specification to be understandable. Finally, point (d) "whether and how the administrative, management and supervisory bodies are informed about the views and interests of affected stakeholders with regard to the undertaking's sustainability-related impacts" should be restored as quite an essential information in case stakeholder engagement is done.	Interests and views of stakeholders to be disclosed only if stakeholder engagement occurs. Specific AR.

DR-7 (SBM-3) - Material impacts and risks and their interaction with strategy and business model		X	Data on resilience, strategy and business model plays a fundamental role in investment analysis strategies, which is why we recommend keeping these disclosures in line with ESRS Set 1. In Eurosif's 2023 report on the use of climate data by investors, information on investee companies' business model and its reliance to climate risks appears among the most widely used metric assessed by investors in their climate-related investment decision making processes. Also, additional changes result in a restructured text of the DR which does not seem to lead to much simplification but will make things more difficult for users in terms of comparability. We suggest retaining the wording of ESRS Set 1.	Reduced granularity with information about the resilience of its strategy and business model not required.
DR-8 (SBM-4) - Material opportunities and positive impacts as voluntary content	X			Voluntary
DR-9 (IR 1) - Processes to identify and assess material impacts and risks		X	We disagree with the simplifications which would result in omitting a lot of important information needed by information users including: (d) a description of the decision-making process and the related internal control procedures; (e) the extent to which and how the process to identify, assess and manage impacts and risks is integrated into the undertaking's overall risk management process and used to evaluate the undertaking's overall risk profile and risk management processes; (f) the extent to which and how the process to identify, assess and manage opportunities is integrated into the undertaking's overall management process where applicable. Information on the methodologies and assumptions applied in the described process is	IRO-1 specifications in topical standards summarised centrally requiring to identify and assess material impact and risks.

			quite critical to understand the reliability of the disclosures. Finally, it is unclear why information on how sustainability risks and impacts are monitored should be omitted.	

Q14) 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).

NA

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.

Q15) Would you like to reinsert the "information about the resilience of the undertaking`s strategy"?

Yes/no – please explain your answer

The resilience of the undertaking's strategy is fundamental information for investors and part of their responsibility towards their customers, which is why we would like to reinsert it. In Eurosif's 2023 report on the use of climate data by investors, information on investee companies' business model and its resilience to climate risks appear among the most widely used metric assessed by investors in their climate-related investment decision making processes.

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.

Q16) Do you agree with this approach?

Yes/No – please explain your answer

Merging disclosures is not helpful for users. It changes the structure and reduces comparability of information. Meanwhile, it would not result in a true simplification of the standard.

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

Q17) 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

ESRS LSME ED	Agree[4]	Disagree	Please provide rationale for any disagreement and proposed amendments	Main simplifications compared to Set 1
MDR[5] -P, MDR-A		X	Substantial changes to the structure of the standard, while aiming to simplify, are confusing and make comparability difficult. It can also be more complex for companies that will eventually be willing to move from LSME to ESRS Set 1. Importantly, this may also impair comparability, interoperability and make it more difficult for information users. While big changes in the structure - if they go hand in hand with big simplifications -can be justified for the VSME standard, this is not the case for the LSME standard. Also, this seems contrary to the principle adopted that the LSME standard should be developed based on ESRS Set 1. While some disclosures or data points could be made optional, or scrapped, the structure overall should be the same.	Topic agnostic in this section.
Policies and Actions across ESRS E1-E5 and S1-S4		X	Substantial changes to the structure of the standard, while aiming to simplify, are confusing and make comparability difficult. It can also be more complex for companies that will eventually be willing to move from LSME to ESRS Set 1. Importantly, this may also impair comparability, interoperability and make it more difficult for information users. While big changes in the structure - if they go hand in hand with big simplifications - can be justified for the VSME standard, this is not the case for the LSME standard. Also, this seems contrary to the principle adopted that the	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.

[4] A respondent who agrees in substance but would like to propose improvements to a DR should answer "disagreement". When agreeing, 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.

[5] MDR: Minimum Disclosure Requirement.

			LSME standard should be developed based on ESRS Set 1. While some disclosures or data points could be made optional or deleted, the structure overall should be the same. Moving such an important disclosure requirement as climate mitigation transition plans to "policies and actions" in the Application Guidance is not helpful. It reduces the importance of this matter, which is crucial to investors. Also, the information to be disclosed on climate mitigation transition plans has been significantly reduced, removing a lot of crucial disclosures for assessing reliability and ensuring the understanding of the key components. Without these disclosures on transition plans the information is likely to become meaningless. These important disclosures include: 1) an explanation of the decarbonisation levers identified, and key actions planned, including changes in the undertaking's product and service portfolio and the adoption of new technologies in its own operations; 2) an explanation and quantification of the undertaking's investments and funding supporting the implementation of its transition plan; 3) a qualitative assessment of the potential locked-in GHG emissions; 4) use of carbon offsets or carbon credits, which interestingly enough are mentioned only in biodiversity actions and targets; 5) how the transition plan is embedded in and aligned with the undertaking's overall business strategy and financial planning; (6) whether the transition plan is approved by the administrative, management and supervisory bodies. Again, without the above-mentioned information, information on transition plans will not be useful. Overall, we call for keeping the disclosures on targets and transition plans, especially on climate mitigation, fully in line with ESRS Set 1. This is	

			crucial information for investors as demonstrated in Eurosif's report on climate data indicators. https://www.eurosif.org/news/eurosif-report-may-2023/	
MDR-T	X			Topic agnostic: Reduced number of MDR. "Report if you have" component[6]
Targets across ESRS E1-E5 and S1-S4		X	See comments above. Moreover, information on targets and transition plans is of high importance to investors, in particular in climate mitigation and adaptation, but also beyond (e.g. biodiversity where the disclosure on transition plan was completely removed). If companies set targets, disclosure should be reliable and sufficiently granular so that users can assess them. To that end, it is not helpful that disclosures of indication of milestones or interim targets, how stakeholders have been involved in target-setting (which could be optional), disclosure of timeframe for setting targets, as well as description of the defined level of ambition to be achieved and of any qualitative or quantitative indicators used to evaluate progress, have all been deleted from the ED. Moving such an important disclosure requirement as climate mitigation transition plans to "policies and actions" in the Application Guidance is not helpful. It reduces the importance of this matter, which is crucial to investors. Also, the information to be disclosed on climate mitigation transition plans has been significantly reduced, removing a lot of crucial disclosures for assessing reliability and ensuring the understanding of the key components. Without these disclosures on transition plans are likely to become meaningless. These important disclosures include:	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.

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

			1) an explanation of the decarbonisation levers identified, and key actions planned, including changes in the undertaking's product and service portfolio and the adoption of new technologies in its own operations; 2) an explanation and quantification of the undertaking's investments and funding supporting the implementation of its transition plan; 3) a qualitative assessment of the potential locked-in GHG emissions; 4) use of carbon offsets or carbon credits, which interestingly enough are mentioned only in biodiversity actions and targets; 5) how the transition plan is embedded in and aligned with the undertaking's overall business strategy and financial planning; (6) whether the transition plan is approved by the administrative, management and supervisory bodies. Again, without the above-mentioned information, information on transition plans will not be useful. Overall, we call for keeping the disclosures on targets and transition plans, especially on climate mitigation, fully in line with ESRS Set 1. This is crucial information for investors as demonstrated in the Eurosif report on climate data indicators. https://www.eurosif.org/news/eurosif-report-may-2023/	
Processes for engaging with own workforce, workers in the value chain, affected communities, consumers and end-users, and their representatives about impacts	X			Centralised disclosure under policies and actions

Q18) 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).

Overall, we recommend prioritising alignment with ESRS Set 1 as much as possible. Changing the structure is not helpful to information users and may be problematic to reporting companies also especially if eventually they would like to report against ESRS Set 1. Reducing substantially the reported information, especially on climate change mitigation, is likely to reduce the usefulness if the information, undermining the entire purpose of this exercise. Also, it is likely to increase the reporting burden rather than alleviate it because investors are likely to send additional questionnaires to LSMEs if these disclosures do not provide them with the information they need to compare LSMEs with their larger counterparts.

SMEs that have their securities listed on EU Regulated Markets (rather than, for example, the SME Growth Markets created by MiFID II) have chosen to be in the same asset category as those larger enterprises and be subject to the same high transparency standard to ensure investor protection.

As far as proportionality is concerned, it is important to keep in mind that most of the disclosures are subject to materiality assessment, which means only a part of the data points will be reported.

B.4) Section 4: Environment

Q19) 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

General comments, previous positions, letter July 2023 letter from investors– climate environmental indicators, scope 1 to 3, report

ESRS LSME ED	Agree[7]	Disagree	Please provide rationale for any disagreement and proposed amendments	Main simplifications compared ESRS Set 1
DR E1-1 Energy consumption and mix	X			Reduced granularity for renewables
DR E1-1 Energy intensity based on net revenue	X			Same as ESRS Set 1 (SFDR T1, #6) but simplified the reconciliations and added 1-year phase-in.
DR E1-2 Gross Scopes 1,	X			Simplified, reduced breakdowns and added an "if applicable"

[7] A respondent who agrees in substance but would like to propose improvements to a DR should answer "disagreement". When agreeing, 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.

2, 3 and Total GHG emissions				principle in EU ETS and market-based methods.
DR E1-2 GHG intensity based on net revenue	X			Same as ESRS Set 1 (SFDR T1, #3) with sentence about proper reconciliations and an 1-year phase-in. Also a specification for SNCIs[8] on GHG intensity per net revenues.
DR E1-3 GHG removals and GHG mitigation projects financed through carbon credits	X			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.
DR E1-4 Anticipated financial effects from material physical and transition risks and potential climate-related opportunities	X			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).
DR E2-1 Pollution of air, water and soil	X			Same as ESRS Set 1 (SFDR T2, #1, #2 and #3, T1, #8) /added some ARs that clarify the disclosure of EPRTR regulation
DR E2-2 Substances of concern and substances of very high concern	X			Same as ESRS Set 1
DR E3-1 Water consumption	X			Same as ESRS Set 1 (SFDR T2, #6.2 and #6.1). Included disclosure for SNCIs on water intensity ratios.

[8] SNCIs: Small and Non-Complex Institutions.

DR E4-1 Impact metrics related to biodiversity and ecosystems change	X			Reduced granularity but kept the disclosures regarding invasive alien species and Life Cycle Assessment.
DR E5-1 Resources inflows	X			Simplified and reduced Granularity
DR E5-2 Resources outflows	X			Kept the EU Law datapoints (SFDR T2, #13, T1, #9) but simplified and reduced granularity
DR E6 – Anticipated financial effects from material environmental-related matters other than climate	X			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.

Q20) 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).

If trade-offs need to be made, maybe DR E1-2 GHG intensity is not as necessary as can be calculated based on the other disclosures (total GHG emissions and net revenue). We do not understand why the disclosure on biodiversity transition plans was removed. If companies do not have one, they do not have to report on it anyway. Also, there is an increasing amount of evidence on the importance of biodiversity for climate mitigation. It is also unclear why a disclosure on internal carbon pricing as removed. Again, if companies do not have it, they do not have to report on it.

Overall, we recommend prioritising alignment with ESRS Set 1 as much as possible. Changing the structure is not helpful to information users and may be problematic to reporting companies also especially if eventually they would like to report against ESRS Set 1. Reducing substantially the reported information, especially on climate change mitigation, is likely reduce the usefulness if the information, undermining the entire purpose of this exercise. Also, it is likely to increase the reporting burden rather than alleviate it because investors are likely to send additional questionnaires to LSMEs if these disclosures do not provide them with the information they need to compare LSMEs with their larger counterparts.

SMEs that have their securities listed on EU Regulated Markets (rather than, for example, the SME Growth Markets created by MiFID II) have chosen to be in the same asset category as those larger enterprises and be subject to the same high transparency standard to ensure investor protection.

As far as proportionality is concerned, it is important to keep in mind that most of the disclosures are subject to materiality assessment, which means only a part of the data points will be reported.

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?

Q21) In your view as SNCI or investor, should this ED anticipate detailed guidance on disclosure breakdown for financed emissions?

Yes / No – Please explain your answer

As EFRAG has created financial institutions advisory panels, it may be useful they develop an appropriate guidance on disclosures regarding financed emission.

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.

Q22) 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?

Yes / No – Please explain your answer

As mentioned above, 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. This topic should be discussed by the Financial Institution Advisory Panels and as part of a guidance for financial institutions.

B.5) Section 5: Social

Q23) 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

ESRS LSME ED	Agree[9]	Disagree	Please provide rationale for any disagreement and proposed amendments	Main simplifications compared to ESRS Set 1
DR S1-1 Characteristics of employees	X			In Set 1 S1-6. Simplified, reduced granularity
DR S1-2 Characteristics of non-employees:	X			In Set 1 S1-7. Simplified, reduced granularity
DR S1-3 Collective bargaining coverage and social dialogue	X			In Set 1 S1-8. Simplified, reduced granularity. Social dialogue deleted
DR S1-4 Adequate wages	X			In Set 1 S1-10. Thresholds for disclosing country information included. Subject to materiality assessment
DR S1-5 Social protection	X			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.*
DR S1-6 Training metrics	X			In Set 1 S1-13. Focus on training. Reduced granularity and phase-in for gender breakdown included in Section 1 (Appendix C)
DR S1-7 Health and safety metrics		X	The proposed simplifications remove disclosures on crucial information, i.e. the extent to which its own workforce is covered by its health and safety management system and also disclosures on work-related incidents	In Set 1 S1-14. Only SFDR indicators were kept.

[9] A respondent who agrees in substance but would like to propose improvements to a DR should answer "disagreement". When agreeing, 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.

			associated with work-related injuries and ill health.	
DR S1-8 Remuneration metrics	X			In Set 1 S1-16. Simplified by deleting datapoint on contextual information. SFDR indicators kept.
DR S1-9 Incidents and severe human rights impacts and incidents	X			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)
DR S1-10 Diversity	X			In Set 1 S1-9 and S1-12. Diversity indicators and Persons with disabilities are merged. Granularity reduced.
S1-11 Work-life balance metrics	X			In Set 1 S1-15. Changed to voluntary disclosure.

Q24) 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).

We appreciate that the SFDR-related disclosures are kept as these are vital for investors. Overall, we support these disclosures, but are concerned about the simplification of the health and safety metrics which would enable to obscure information about work-related injuries.

B.6) Section 6: Business conduct

Discuss with others

Q25) 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:

ESRS LSME ED	Agree[10]	Disagree	Please provide rationale for disagreement and proposed amendments	Main simplifications compared to Set 1
DR G1-1 – Management of relationships with suppliers		X	We disagree with the restructuring and proposed simplifications which in reality reduce of lot of useful information for the reporting companies and would result in disclosures which	G1-2 and G1-6 defined in ESRS Set 1 G1 have been simplified and

[10] A respondent who agrees in substance but would like to propose improvements to a DR should answer "disagreement". When agreeing, 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.

			are inconsistent and not comparable for the information users. While major simplification, including a changed structure, can be justified for VSME, LSME should be as close as possible to ESRS Set 1.	merged
DR G1-2 Anti-corruption and anti-bribery		X	We disagree with the restructuring and proposed simplifications which in reality reduce of lot of useful information for the reporting companies and would result in disclosures which are inconsistent and not comparable for the information users. While major simplification, including a changed structure, can be justified for VSME, LSME should be as close as possible to ESRS Set 1.	G1-3 and G1-4 defined in ESRS Set 1 G1 have been simplified and merged
DR G1-3 – Political influence and lobbying activities		X	We disagree with the restructuring and proposed simplifications which in reality reduce of lot of useful information for the reporting companies and would result in disclosure which are inconsistent and not comparable for the information users. While major simplification, including a changed structure, can be justified for VSME, LSME should be as close as possible to ESRS Set 1.	Kept and simplified par. 29 of G1-5 defined in ESRS Set 1 G1.

Q26) 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).

Q27) Is there any information that the ESRS LSME ED should further cover?

We are very concerned about the simplifications to the governance-related sections (GOV 1, GOV 2, GOV 3 and GOV 5). Governance is the basis of any performance and understanding to what extent sustainability matters are discussed in different governance bodies, what is the board's expertise on sustainability matters, and whether the sustainability matters are integrated in the company's strategy, and whether the board sets sustainability-related targets or at least oversees their setting and execution, is very important in terms of understanding the company's resilience to climate change and other sustainability challenges and its mid to long-term performance. While they are various other disclosures which are not as important and could be made voluntary or deleted (e.g. invasive alien species or work-life balance), these are really core disclosures.

Also, we strongly believe that the disclosures on targets and transition plans, especially on climate mitigation, should be retained as in ESRS Set 1. As demonstrated in Eurosif's report on the investor perspective on climate data, these are core disclosures investors need, and their sufficient granularity is essential to ensure their reliability and usefulness. Finally, it is not clear why a disclosure on biodiversity transition plans was removed. It could be retained as “report if you have” or at least as a voluntary disclosure.

Q28) Do you have any other comments?

We disagree with the restructuring and proposed simplifications which in reality reduce of lot of useful information for the reporting companies and would result in disclosure which are inconsistent and not comparable for the information users. While major simplifications, including a changed structure, can be justified for VSME, LSME should be as close as possible to ESRS Set 1.