

# LSME and VSME

## Overview *CFSS Meeting*

17 January 2024



## DISCLAIMER

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## OVERVIEW

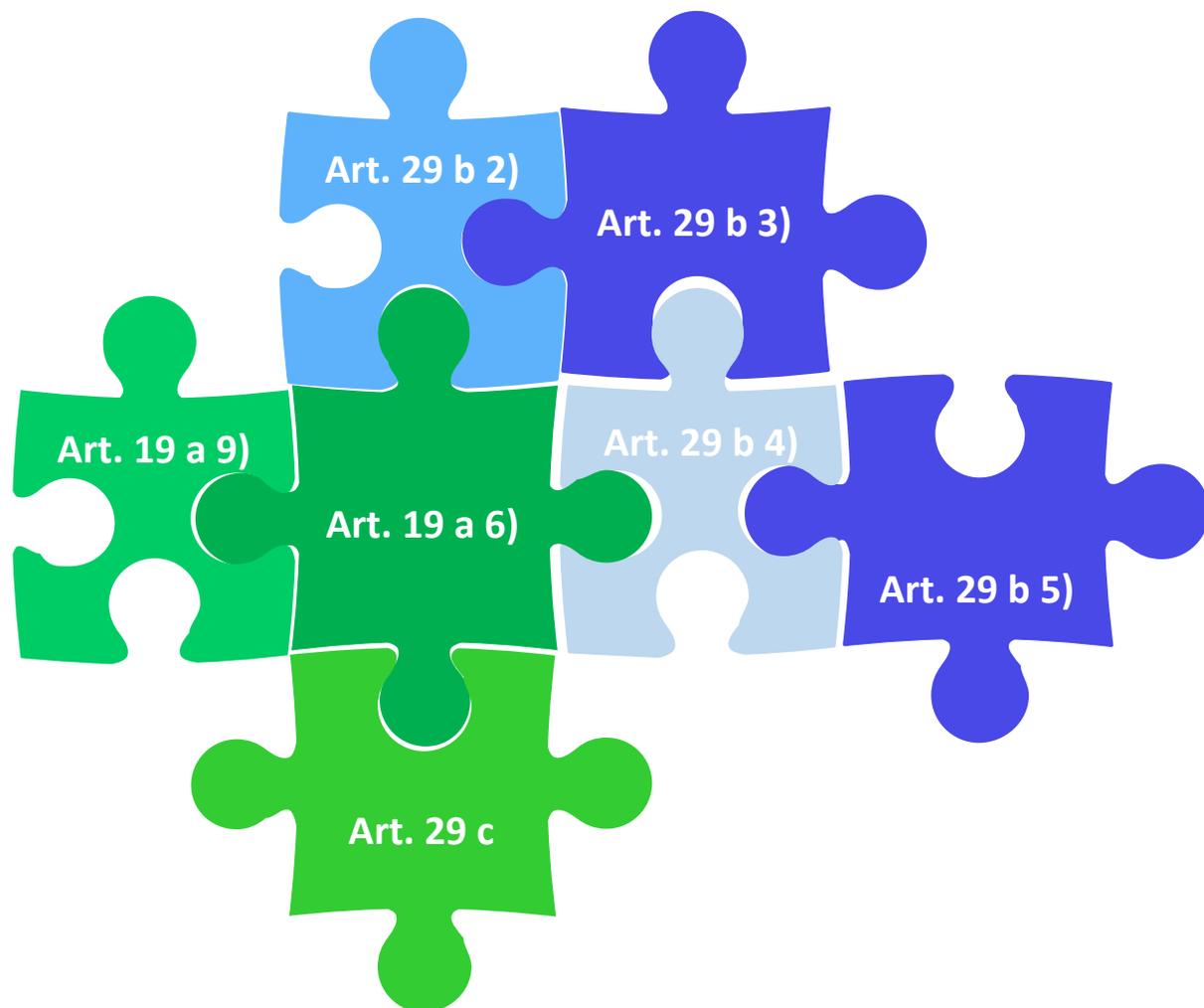
- LSME General Overview
- VSME General Overview
- Timeline for LSME and VSME
- Field Test information



## LSME General Overview

# CSRD PROVISION FOR LSME - OVERVIEW

There are several articles in CSRD that define the scope and the content of LSME.



## Public accountability perspective

- LSME is expected to support the availability of ESG information of listed SMEs, to avoid discrimination against such entities on the part of financial market participants.
- LSME is expected to ensure the availability of SFDR PAI and Taxonomy disclosures.

# DEROGATION FOR LSME

## LSME SCOPE AND CONTENT FRAME

### ARTICLE 19a (6)

As derogation to art 19a(1), the article specifies the reporting content of LSME ESRS to include :

- a brief description of the undertaking's business model and strategy;
- a description of the undertaking's policies in relation to sustainability matters;
- 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;
- the principal risks to the undertaking related to sustainability matters and how the undertaking manages those risks;
- key indicators necessary for the disclosures referred to in points (a) to (d).

## REPORTING ON INDIVIDUAL BASIS

### ARTICLE 19a (9)

Listed SME that are carrying out consolidated sustainability reporting under Art. 29a have to use the ESRS for large undertakings. => LSME report is prepared on individual basis

Subsidiaries included as business relationship (through value chain dimension).

### **PROPORTIONALITY - ARTICLE 29c**

Establishes on sustainability reporting standards for SMEs that LSME shall *be proportionate and relevant to the scale and complexity of the activities, and to the capacities and characteristics of small and medium-sized undertakings*. In terms of content, it refers to art 19a (6) and to the criteria in Article 29b, paragraphs 2, 3 ,4 and 5. It requires the standards to specify, to the extent possible, the structure in which that information shall be reported. The Commission shall adopt those delegated acts at the latest by 30 June 2024.

# OTHER CSRD PROVISIONS FOR LSME

## LIST OF SUBJECT MATTERS TO BE TAKEN INTO CONSIDERATION

### ARTICLE 29b (2)

List of sustainability subject matters that LSME shall take into account across ESG. Same list as for large undertakings.

## INFORMATION TO BE REPORTED

### ARTICLE 29b (3)

LSME shall specify the forward-looking, retrospective, qualitative and quantitative information.

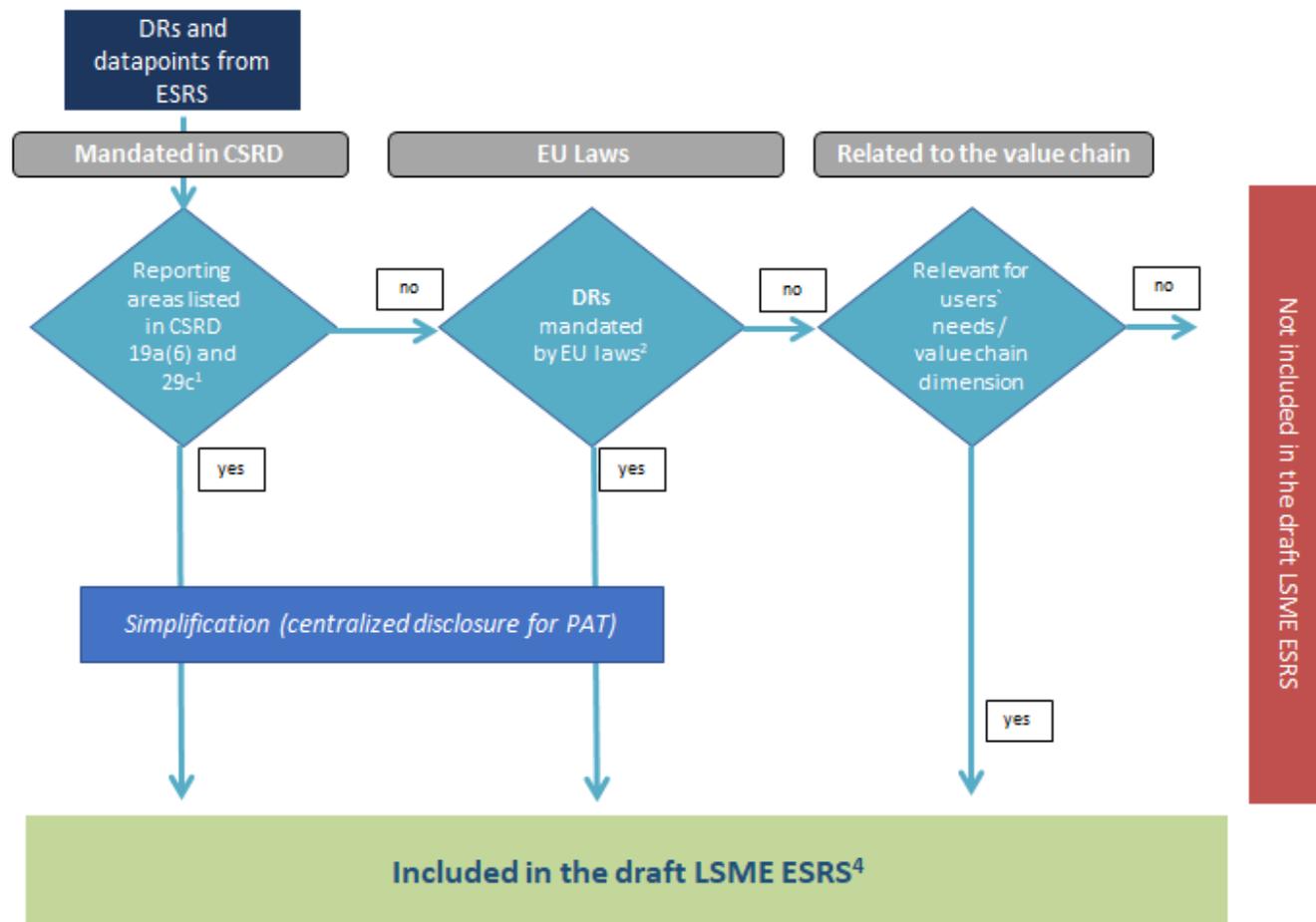
## EU REGULATIONS TO BE TAKEN INTO ACCOUNT

### ARTICLE 29b (5)

LSME shall to the greatest extent possible, take account of:

- the work of global standard-setting initiatives.
- the information that financial market participants need to comply with their regulations (i.e. SFDR)
- EU Taxonomy (Reg. 2020/852)
- other EU Regulations included in Set 1

# DECISION TREE



For more details on value chain considerations please see “*Agenda paper 05-07*” of 13 December SR Board [meeting](#)

## IFRS S1 and S2 alignment

Priority given to simplification over alignment, as CSRD does not indicate to cover financial opportunities.

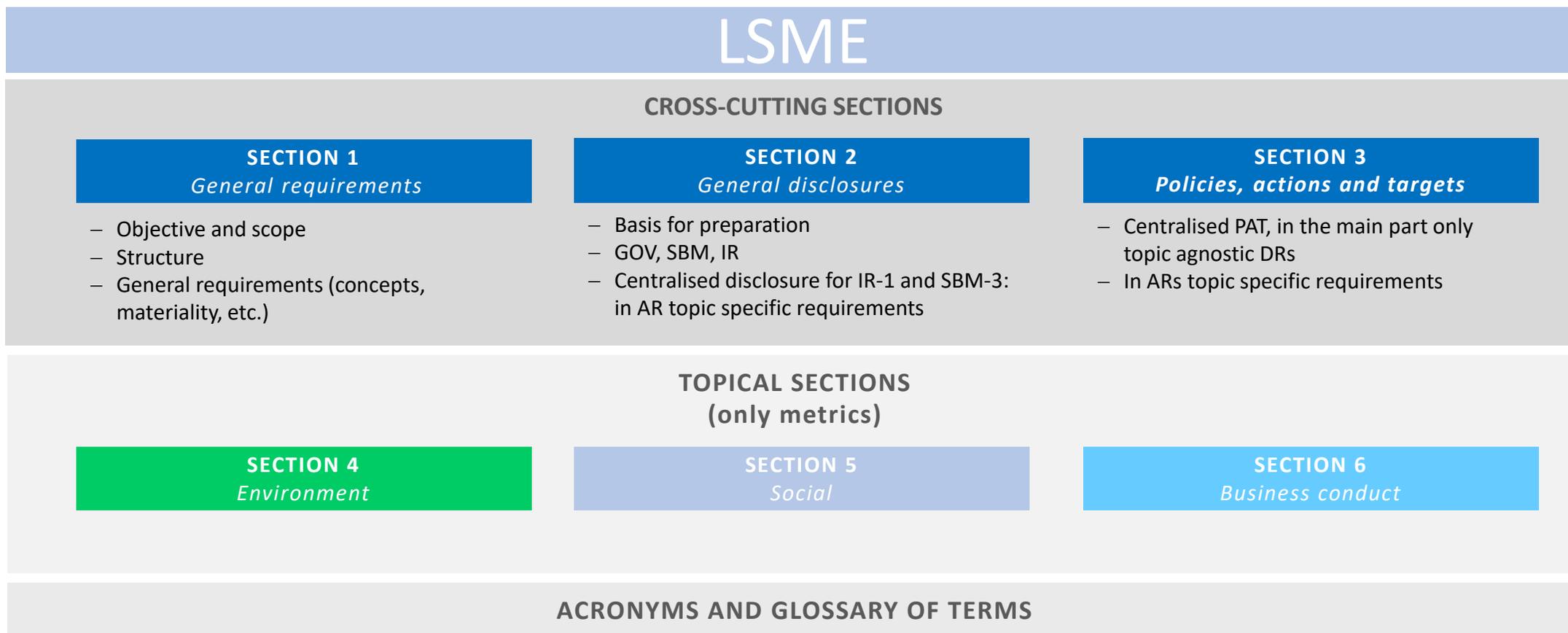
Note 1: Art. 29c refers to the criteria set out in Art. 29b point 2 to 5

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 [draft] working paper has considered also EFRAG PTF cluster 8 proposal as a possible minimum content

# ONE STANDALONE STANDARD: SIX SECTIONS



## KEY SIMPLIFICATIONS – ARCHITECTURE

- voluntary nature of positive impacts and opportunities.
- ‘report if you have’ approach to:
  - targets;
  - due diligence (requirement limited to SFDR PAI ‘lack of due diligence’);
  - stakeholder engagement;
  - processes to engage with affected stakeholders; and
  - processes to remediate negative impacts and channels.
- simplified architecture
- more voluntary Disclosure requirements (from “shall” in Set 1 to “may” in LSME)

# KEY SIMPLIFICATIONS COMPARED TO SET 1 – SECTION 1

ESRS 1 General requirements	ESRS LSME ED – Section 1 General requirements (1/3)
Materiality	Same approach as in Set 1 Delegated Act. [July 2023]
Material matters and materiality of information	Added an AR to better specify how an undertaking shall assess impacts and risks in its value chain.
Opportunities and positive impacts	Reporting on opportunities and positive impacts on voluntary basis.
Value chain and estimation using sector averages and proxies	Added a DR in order to better specify that an LSME can rely on information contained in sustainability statement of an actor in its value chain. Added an AR to clarify the use of proxies and sector data when there is a large number of actors in the LSME value chain. Furthermore, a clarification has been added to support a balanced exercise of judgement.
Presenting comparative information / Reporting errors prior period	Not required when it is not possible with reasonable effort (in Set 1 is ‘when impracticable’).

# KEY SIMPLIFICATIONS COMPARED TO SET 1 – SECTION 1

ESRS 1 General requirements	ESRS LSME ED – Section 1 General requirements (2/3)
Sources of estimation and outcome uncertainty	Simplified criteria to be considered when judging if a possible future event is material.
Updating disclosures about events after the end of the reporting period	Updating disclosures about events after the end of the reporting period if possible with reasonable effort. Eliminated the requirement to disclose effects of events after the end of the reporting period.
Classified and sensitive information, and information on intellectual property, know-how or results of innovation	Option to omit information introduced (not possible in set 1) in exceptional cases, information relating to impending developments or matters in the course of negotiation.
Reporting undertaking and value chain	Expanded the approach to associates and joint ventures to include subsidiaries. Added an illustration in AR to illustrate the approach to impact metrics for subsidiaries, associates and joint ventures that are actors in the value chain.

# KEY SIMPLIFICATIONS COMPARED TO SET 1 – SECTION 1

ESRS 1 General requirements (3/3)	ESRS LSME ED – Section 1 General requirements (3/3)
Connectivity	Simplified the language. Streamlined guidance. Same principle.
Policies	Examples in AR of “not formalised” policies.
Reporting on individual basis	Provisions related to consolidation have been deleted in line with art. 19a(6) and individual reporting.
Phased-in transitional provisions	Same phase-in as Set 1 extended to undertakings in scope of ESRS LSME ED that will not choose to opt-out or that cannot opt-out for the first 2 years adjusted for 50 employees.  Included four additional phase-ins

# MAIN SIMPLIFICATIONS – SECTION 2

ESRS 2 disclosures	General	ESRS LSME ED – Section 2 General disclosures
BP-1, BP-2		DR-1 (BP 1) and DR-2 (BP 2): Reduced granularity
GOV-1		DR-3 (GOV 1): Reduced granularity, simplified (EU datapoints are kept) and included parts of Set 1 GOV-2 (points c) and d)
GOV-2		Simplified and included in DR-3 (GOV-1)
GOV-3		Not included in LSME
GOV-5		Not included in LSME
SBM-1		DR-5 (SBM 1): Instead of revenue breakdown, disclose list of significant ESRS sectors
SBM-3		DR-7 (SBM-3): Reduced granularity, resilience no longer required
IRO-1		IR 1: Incorporation of the contents related to IRO 1 in the topical standards ESRS SET1 1 (main body), in a summarised way; new centralised disclosure on processes (location of disclosure up to undertaking) to identify and assess material impact and risks.

# MAIN SIMPLIFICATIONS – SECTION 3

ESRS 2 MDR-P, MDR-A, MDR-T, MDR-M, Topical PATs	ESRS LSME ED – Section 3 Policies, actions, and targets
MDR-P, MDR-A	The content of MDR-P and MDR-A is kept in the main body of Section 3.
Policies and Actions across E1-E5 and S1-S4	Topical Set 1 Standard Policies and Actions (E1 to E5 and S1 to S4) are centralised, harmonised and simplified in AR of Section 3.
MDR-T	Reduced the number of minimum disclosure requirements in the main body of Section 3 as “Report if you have” component
Targets across E1-E5 and S1-S4	<p>Topical Set 1 Standard Targets (E1 to E5 and S1 to S4) are centralised, harmonised and simplified in AR of Section 3 as “Report if you have” component</p> <p>The requirements were either deleted or kept, but as voluntary disclosures (from “shall” in Set 1 to “may” in the ED).</p>
Processes for engaging	Centralised disclosure in Section 3 under policies and actions
Processes to remediate	Report if you have

# MAIN SIMPLIFICATIONS – SECTION 4

ESRS E1-E5	ESRS LSME ED – Section 4 Environment (1/2)
Objective across E1-E5	Streamlined and simplified
E1-1 – Transition plan	Report if you have component. Other requirements deleted
E1-5 – Energy consumption and mix	Simplified, reduced granularity breakdowns
E1-5 – Energy intensity based on net revenue	Same as ESRS Set 1 (SFDR T1, #6) / simplification regarding proper reconciliations and an additional 1-year phase-in
E1-6 – Gross Scopes 1, 2, 3, Total GHG em.	Simplified, reduced breakdowns and added “if applicable” principle in EU ETS and market-based methods
E1-6 – GHG intensity based on net revenue	Same as ESRS Set 1 (SFDR T1, #3) / simplified reconciliations and additional 1-year phase-in. Specification for SNCIs on GHG intensity per net revenues
E1-7 – GHG removals and mitigation (carbon credits)	Reduced granularity and simplified. Deleted contribution to removals in upstream and downstream value chain. Deleted plans to cancel carbon credits in future and methodology on residual emissions near net-zero.
E1-8 – Internal Carbon pricing	Deleted
E1-9 – Anticipated financial effects	Simplified (EU datapoints kept). Merged physical and transition risks in one single datapoint. Simplified reconciliation.

# MAIN SIMPLIFICATIONS – SECTION 4

ESRS E1-E5 Environment (2/2)	ESRS LSME ED – Section 4 Environment (2/2)
E2-1 – Pollution air, water soil	Same as ESRS Set 1 (SFDR T2, #1, #2 and #3, T1, #8) + new ARs
E2-2 – SHC, SVHC	Same as ESRS Set 1
E3-1 – Water consumption	Same as ESRS Set 1 (SFDR T2, #6.2 and #6.1). Also included a specification for SNCl on water intensity ratios.
E4-1 – Biodiversity trans. Plan	Deleted
E4-5 – Biod. impact metrics	Reduced granularity
E4 -5 – Land use life cycle assess.	The same as ESRS Set 1
E4-5 – Invasive alien species	Discussed exclusion, final decision to keep disclosure
E5-5 – Resources inflows	Simplified and reduced granularity accordingly
E5-6 – Resources outflows	Kept the EU Law datapoints (SFDR T2, #13, T1, #9) but simplified and reduced granularity accordingly
Financial effects (E2, E3, E4 and E5)	Financial effects on pollution, water, biodiversity and circular economy were simplified and centralised, i.e. only one DR for all, the undertaking to specify the content for each topic supported by this centralised DR.

# MAIN SIMPLIFICATIONS – SECTION 5

ESRS S1-S4 Social	ESRS LSME ED – Section 5 Social
Objective for S1	Simplified and reduced in granularity
General	Replaced the threshold 50 employees and more than 10% of the total employees with 10% only
S1-6 – Characteristics of employees	This is S1-1. Simplified, reduced granularity
S1-7 – Characteristics of non-employees	This is S1-2. Simplified, reduced granularity
S1-8 – <u>Collective bargaining coverage and social dialogue</u>	This is S1-3. Simplified, reduced granularity. Social dialogue deleted
S1-10 – Adequate wages	This is S1-4. Thresholds for disclosing country information included. Deleted “all” to clarify that it is subject to materiality assessment.
S1-11 – Social protection	This is S1-5. Simplified. 2 datapoints made voluntary.
S1-13 – Training and skill development metrics	This is S1-6 (simplified focus “Training metrics”). Reduced granularity. A phase-in for gender breakdown was introduced in Section 1 (Appendix C)
S1-14 – Health and Safety metrics	This is S1-7. Only SFDR indicators were kept.

# MAIN SIMPLIFICATIONS – SECTION 5 AND 6

ESRS S1	ESRS LSME ED – Section 5 Social
S1-16 – Remuneration metrics (pay gap and total remuneration)	This is S1-8. Simplified by deleting datapoint on contextual information. SFDR indicators kept.
S1-17 – Incidents, complaints and severe human rights impacts	This is S1-9. Reduced granularity and changed reconciliation, focus on incidents and severe human rights impacts. A phase-in was also added in Section 1 (Appendix C)
S1-9 – Diversity metrics, S1-12 Persons with disabilities	This is S1-10. Diversity indicators and Persons with disabilities are merged. Breakdown by gender for percentage of employees with disabilities deleted.
S1-15 – Work-life balance metrics	This is S1-11. Changed to a voluntary disclosure for the ED
ESRS G1 Business conduct	ESRS LSME ED – Section 6 Business conduct
ESRS G1 – Business conduct	<p>G1-2 and G1-6 in ESRS G1 has been simplified and merged into G1-1 of the ED.</p> <p>G1-3 and G1-4 in ESRS G1 has been simplified and merged into G1-2 of the ED.</p> <p>Added “if any” on specific DRs regarding anti-corruption and anti-bribery and political influence and lobbying activities</p>

# LSME DATAPOINTS REDUCTION: ESTIMATION

	SHALL	MAY			REPORT IF YOU HAVE / IF APPLICABLE	TOTAL
		From "Shall" to "May"	MAY in Set 1	Total		
Set 1*	827	-	257	257	-	1,084
LSME	466	81	110	191	32	689
Reduction "nr."	-361	-	-147	-66	-	-395
Reduction "%"	<b>-44%</b>	-	<b>-57%</b>	<b>-26%</b>	-	<b>-36%</b>



**- 48%**  
if we consider the simplification of "report if you have" and "if applicable" components

\* based on (Draft) List of ESRS Data Points – Implementation Guidance  
For more details please see this [Agenda paper 05-10](#) of SRB 13 December 2023



## VSME General Overview

➤ Not legally binding – outside CSRD- but to fulfill market needs.

➤ **Proportionality** = simplified language + modularity ; ESRS consistency

➤ Scope: Non-listed Micro and SMEs in EU

99.8% of total companies

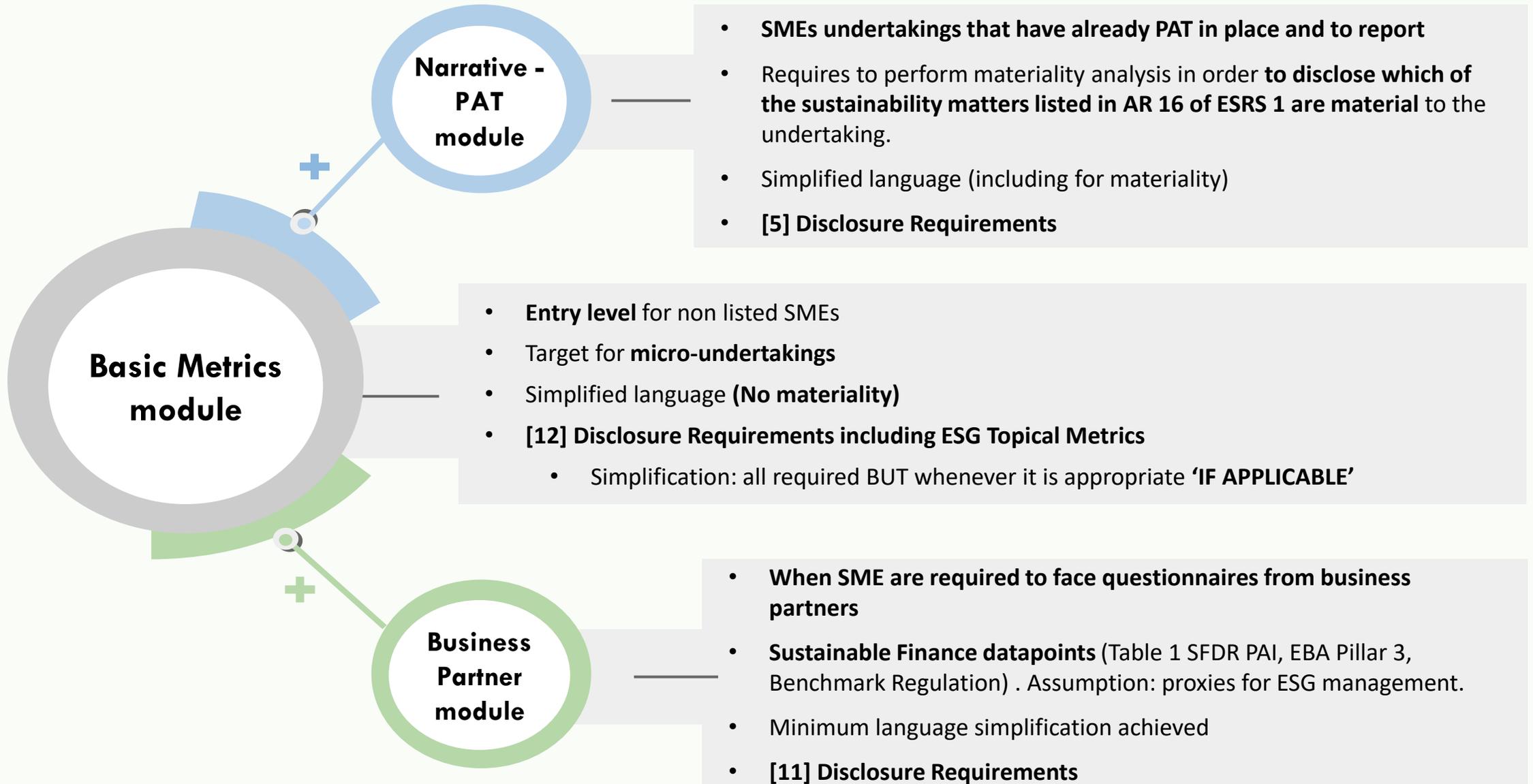
## ➤ User needs

- i. [EC Q&A Delegated Acts ESRS in July 2023](#): “*EFRAG is developing simpler, voluntary standards for use by non-listed SMEs [...] to respond to requests for sustainability information in an efficient and proportionate manner, and so facilitate their participation in the transition to a sustainable economy.*”
- ii. [EC SME Relief Package of September 2023](#) refers to **VSME as a measure to support SMEs in accessing sustainable finance.**

➤ **Commitment of market participants** (larger corporates and banks) essential for the success of the standard

# ONE STANDALONE STANDARD: 3 MODULES

V  
S  
M  
E





Considerations and  
outreach  
for developing  
VSME

- **General approach:** VSME is a standalone document
- **CSRD Scope:** EFRAG's work on VSME is outside the mandate in the CSRD.  
The CSRD however provides certain indications for non-listed small and medium companies (Art 29b4, Recital 21, Recital 22).
- **Building Block and methodology of SR TEG and SR Board:**
  - ensure conceptual coherence with the ESRS Set 1 and LSME ESRS ED
  - appropriate proportionality
  - focus on the users' needs
- **Terminology:**
  - Simplified language in VSME, especially in the Basic Module, without impairing the coherence with LSME.
  - Defined Terms of VSME bridges the VSME language with the rest of ESRS literature.  
Appropriate explanations on the term have been included in the main body of VSME or in the Guidance to the Basic Module.

- EFRAG Secretariat **analysed 12 real life examples of ESG questionnaires** which included:
  - 2 national central banks
  - 4 national federations
  - 1 national credit information provider
  - 1 national bank
  - 1 rating agency (used by more than 100,000 companies)
  - 3 mixed banks and supply chain (international initiatives) questionnaires.
- These questionnaires cover around 26,000 SMEs and are part of initiatives that comprise approximately 700 banks and 450 companies in the value chain.
- Please note that some of these questionnaires are international initiatives, thus have an international scope.
- On this basis, EFRAG secretariat has identified the following recurrences of DRs in VSME ED in the existing questionnaires (see next slides).

VSME ED BASIC MODULE	Number of questionnaires in which it is asked
Disclosure B 1 – Basis for Preparation	
Disclosure B 2 – Practices for transitioning towards a more sustainable economy	
<b>Environmental Metrics</b>	
B 3 – Energy and greenhouse gas emissions	12
B 4 – Pollution of air, water and soil	7
B 5 – Biodiversity	4
B 6 – Water	9
B 7 – Resource use, circular economy, and waste management	9
<b>Social Metrics</b>	
B 8 – Workforce – General characteristics	8
B 9 – Workforce - Health and Safety	3
B 10 – Workforce – Remuneration, collective bargaining, and training	7
B 11 – Workers in the value chain, affected communities, consumers and end-users	-
<b>Governance Metrics</b>	
B 12 – Convictions and fines for corruption and bribery	4

VSME ED NARRATIVE-PAT MODULE	Number of questionnaires in which it is asked
Disclosure N 1 – Strategy: business model and sustainability related initiatives	10
Disclosure N 2 – Material sustainability matters	Not applicable
Disclosure N 3 – Management of material sustainability matters Paragraph 61: Actions taken in the reporting period to improve its energy efficiency and to reduce its greenhouse gas emissions	7
Paragraph 62: Policies, actions and targets in relation to (i) workers in the value chain; and/or (ii) consumers and end users; and/or (iii) affected communities	3
Paragraph 64: Actions taken to address breaches in procedures and standards of anticorruption and anti-bribery.	8
Disclosure N 4 – Key stakeholders	7
Disclosure N 5 – Governance: responsibilities in relation to sustainability matters	7

VSME ED Basic Module	Number of questionnaires in which it is asked
Disclosure BP 1 – Revenues from certain sectors	5
Disclosure BP 2 – Gender diversity ratio in governance body	6
Disclosure BP 3 – GHG emissions reduction target	7
Disclosure BP 4 – Transition plan for climate change mitigation	7
Disclosure BP 5 –Physical Risks from climate change	9
Disclosure BP 6 – Hazardous waste and/or radioactive waste ratio	4
Disclosure BP 7 – Alignment with internationally recognized instruments	6
Disclosure BP 8 – Processes to monitor compliance and mechanisms to address violations	5
Disclosure BP 9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles (including the principles and rights set out in the 8 fundamental conventions of the ILO Declaration and the International Bill of Human Rights)	3
Disclosure BP 10 – Work-life balance	1
Disclosure BP 11 – Number of apprentices	3



## TIMELINE FOR LSME AND VSME

# TIMELINE FOR LSME AND VSME

January 2024

Autumn 2024

- EFRAG will consult on the *Building blocks approach*, the LSME and the VSME jointly
- Approximate timeline of consultation: January 2024 (duration 4 months)
- Outreach events

COST BENEFIT ANALYSIS

**LSME and VSME final deliverable:  
Autumn 2024**

**Key objectives:** EFRAG is seeking to obtain the public's view on

LSME: the general simplifications applied and the approach

LSME and VSME field tests are performed during public consultation

VSME: market acceptance, the simplifications applied (language and structure) and on the application guidance in the standard



## FIELD TEST INFORMATION

- The field tests on both ESRS LSME ED and VSME ED are conducted in parallel with the public consultation and intend to complement the outcome of the consultation, with additional fact-based evidence.
- The Field Test focuses on the following key elements:
  - (a) The costs and challenges associated with each of the disclosures;
  - (b) The expected benefits of the disclosures;
  - (c) The understandability of the guidance provided in the ED and its ability to support the implementation of the disclosure requirements (for VSME ED).
- The call for candidates for the field test was issued on the 20 December 2023 and will last **until end January 2024**
- The deadline for completing the field test is **90 calendar days** after the issuance of the ED.

- The field test consists of answering a questionnaire and preparing (part of) the disclosures contained in the ED. It is not necessary to test the entire standard, i.e. it will be possible to selectively test lists of disclosures.
- Mocked- up sections of sustainability statement would be very welcome but are not required
- **Preparers and users that participate to the field test are required to fill in the public consultation questionnaire (as a pre-requisite).**
- All information provided will be treated confidentially and it may be shared with the consultant assisting with the Cost Benefit Analysis. The results of the Field Test will be published on an anonymised basis.
- After analysis of the responses, the results will be discussed at workshops jointly with other preparers and users that participate to the field test discussion to validate the outcomes from the field test, as well as ensure a full understanding of responses. **The workshops are planned for the first half of May 2024.**

- **From the preparers' perspective**, the participation to the field test may take two forms:
  - a) Actual preparation of (part of) the disclosures in the EDs, reply to the Field Test Questionnaire and participation to workshops and/or interviews with EFRAG Secretariat.; or
  - b) Preparatory activity (i.e. assessment of the challenges and benefits deriving from the disclosures in the Eds, supported by the Field Test Questionnaire) and participation to workshops and/or interviews with EFRAG Secretariat.
- Approach b) is lighter, however EFRAG encourages as much as possible approach a) as it will be more informative.
- **From the users' perspective**, the participation to the field test will be through preparatory activity and participation to workshops and/or interviews with EFRAG Secretariat.

Please signal your interest in participating by **31 January 2024** by sending an email to

- VSME@efrag.org for VSME ED and
- LSME@efrag.org for ESRS LSME ED.

Should you have any inquiries, we kindly invite you to include them in your correspondence.



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THANK YOU!