

EFRAG Sustainability Reporting Board
35 Square de Meeüs
1000 Brussels
Belgium

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TIAG/KKO

DK NFM comments on ESRS LSME Exposure Draft

The Danish National Funding Mechanism (DK NFM) welcomes the opportunity to comment on the ESRS LSME Exposure Draft.

DK NFM supports the efforts of EFRAG in developing a LSME standard that reflects the size and complexity of the LSMEs and recognise the importance of ensuring that financial market participants will receive the information they need to comply with their own sustainability disclosure requirements as defined by the SFDR, Pillar 3 and Taxonomy disclosures.

The DK NFM generally supports the draft standard and its content. Furthermore, the DK NFM finds that the approach adopted in the development should provide the foundation for a proportionate and relevant standard for the (listed) SMEs in view of the scale and complexity of their activities as well to users of the reports, including the financial institutions.

DK NFM has, only, a few comments and suggestions for clarifications that would improve the draft standard without making substantive changes to it.

Applicable entities / use of the standard:

The scope of the standard is defined in paragraph 2-4 with paragraph 2 setting the criteria for entities that fall within the scope of the standard, while paragraphs 3 and 4 provide specific descriptions for certain entities and group structures.

The descriptions are difficult to read as they include many complex references to the CSRD. The (potential) users of the standard would need clear guidance on the scope of the standard as they would usually not possess strong knowledge of the CSRD requirements.

The understandability is further impaired as there are references both to Art 19a (stand-alone entities) and 29a (reporting for a group) which makes it difficult to understand when the standard applies to stand-alone entities, only, and when it also applies to a consolidated group reporting. The scope section does therefore not provide a clear guidance on which entities can (or cannot) use the standard. The DK NFM therefore

suggests that the description of the scope is expanded to include specific description of the requirements in the CSRD that can be read stand-alone without referring to the directive.

In addition to the definitions already included in in paragraph 3 and 4, the DK NFM suggests including additional and clear examples and descriptions of different, common group structures and size of entities. The examples and descriptions included in BC14-15 could be used for inspiration of a more reader-friendly and broader description to be included directly in the standard.

Subsidiaries, parent group and the value chain

Throughout the draft standard there are different descriptions of how to include/assess/report for subsidiaries and how/when to consider subsidiaries, parent entities and other group entities as part of the value chain.

The LSME standard covers different structures (stand-alone, groups, sub-groups etc.), which makes it difficult to understand the relevant context for the individual paragraphs. The DK NFM therefore suggests adding definitions as part of the scope section of what to include in the reporting entity, operational control and in the value chain. A clear definition of the boundaries of the reporting entity and which entities to consider part of the value chain would improve the understandability of the requirements throughout the standard. This could either be included as part of the scope section or by adding af new section between the scope section and the section describing the LSME general requirements.

Disclosure requirements

DK NFM supports the approach and aim of developing a standard that is based in the minimum CSRD and other EU law requirements. DK NFM therefore agrees to the reduced number of disclosure requirements compared to the full ESRS Set-1. The DK NFM furthermore finds that the addition of disclosure requirements related to the value chain (the third element in the decision tree) should be kept at a minimum and would support further reductions as long as the first two steps remain intact.

It is important that all requirements stemming from SFDR, Pillar 3 and the Benchmark regulation are included in the standard, why DK NFM supports the inclusion of the table included in Appendix B. Although we have not identified missing items, we encourage EFRAG to cooperate with the ESAs to ensure consistency at the time of submission of the final standard as well as any new but not yet adopted requirements should be added to the table with an indication of the adaption date.

Furthermore, we suggest that EFRAG and the ESA's establishes a process for keeping the table up-to-date as and when future changes to SFDR, Pillar 3 and the Benchmark regulation are agreed.

Specific reporting requirements

DK NFM suggests that the LSME standard only requires disclosures (when material) in line with the minimum requirements in the CSRD, SFDR, Pillar 3 and the Benchmark

regulation. Any additional disclosures should be included as voluntary and “may disclose” information.

Appendix H - “Disclose if you have to”

The draft LSME standard introduces the new term “disclose if you have to” as a header of one of the columns in the table in Appendix H “List of Disclosure/Application Requirements in Section 2”. The term has not been defined in the standard.

The Basis for Conclusion, paragraph BC68, however, includes some sort of definition with the following explanation:

“Appendix H of Section 1 lists all the DRs/ARs to be disclosed [.....] if the LSME has adopted a particular process/activity (‘to be disclosed if you have’, i.e., due diligence process, as commented below, and stakeholder engagement).

DK NFM suggests that the term “disclose if you have to” is defined or described in the standard as users would typically not look for the definition in the Basis for Conclusions. The full description in BC68 should be included in the standard to explain the differences between the materiality assessment, the reporting requirements independently of materiality, reporting if you have and voluntary disclosures. DK NFM believes the explanation is important for the understanding and correct application of the standard.

Kind regards,
The Danish Funding Mechanism

Finance Denmark
Martin Thygesen

Insurance & Pension Denmark
Anne Barrett

FSR – Danish Auditors
Marianne Ploug

Danish Chamber of Commerce
Mikkel Møller Rasmussen

Confederation of Danish Industry
Kristian Koktvedgaard