

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 targets¹. 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 required.
- 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 modelled as closely as possible on the sector-agnostic standards, especially in terms of their structure but also**

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

specific disclosures. This would increase the usability of the reports by ensuring 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 a 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.