

# ESRS LSME and VSME

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VSME



**Role:** non legally binding reporting requirements, on a voluntary basis.

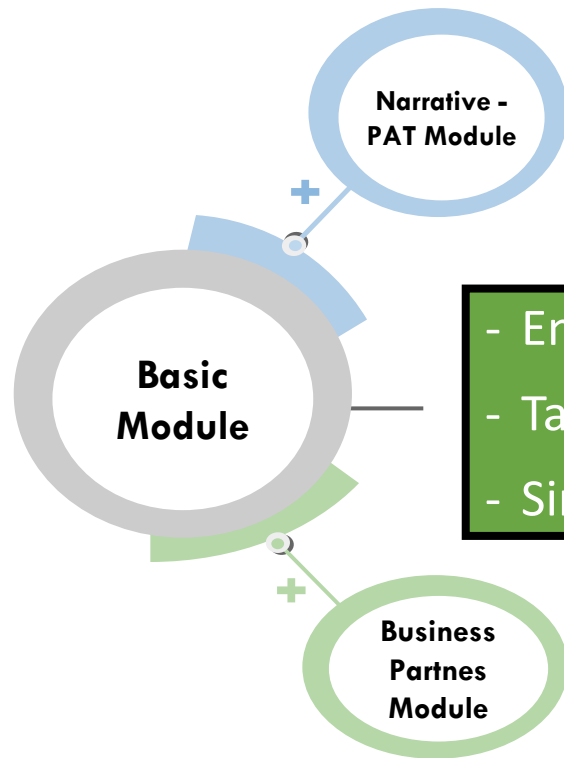
**Objectives:** to credibly replace a substantial part of the questionnaires used by lenders, investors and corporate clients – supply chain dimension and to support SMEs in monitoring their sustainability performance.

**Approach to the preparation:**

- Ensure conceptual coherence with the ESRS Set 1 and ESRS LSME ED
- Proportionality and simplified language and starting from a white sheet of paper
- Focus on the users' needs = built on the basis of existing questionnaires (12 questionnaires covering up to 26000 SMEs, 700 banks and 450 corporates)
- SFDR PAI as sources of ESG datapoints needed beyond investors (lenders and corporates)

**Entity Specific information (for Scope 3):** additional information, depending on the type of activities it carries out (sectors).

# VSME ED: OVERALL STRUCTURE



- SMEs undertakings that have already policies, actions and targets (PAT) in place and to report
- Materiality analysis required

- Entry level for non listed SMEs
- Target for micro-undertakings
- Simplified language (No materiality)

- When SME face questionnaires from business partners
- Sustainable Finance datapoints (Table 1 SFDR PAI, EBA Pillar 3, Benchmark Regulation) as proxies for ESG management.

## Public Consultation Respondents

- **311 responses**
  - 126 preparers
  - 39 users
  - 146 other
- **164 responses to field test**
  - 135 preparers
  - 29 users
- **22 comment letters**
- Platforms involved as a proxy of preparers and users represented 23,000 SMEs across Europe and over 100,000 large undertakings worldwide.

- General support for the structure, language and modularity
- Online platforms needed (connected to incentives)
- Online tools needed (i.e. GHG calculators, interactive maps)
- Materiality too complex
- Narrative-PAT module complex for preparers, not user friendly for users
- Additional Guidance needed
- Additional financial datapoints requested by banks
- Additional requests at sector level are still possible / sector SME guidance needed
- The datapoints analysed the questionnaires (pre-consultation) were broadly confirmed in the public consultation (all users, banks, large undertakings, and investors).

## BASIC MODULE

- Entry level for non-listed SMEs
- Target for micro-undertakings
- Simplified language
- **11 Disclosures** including narrative disclosures simplified and ESG Topical Metrics.
- Simplification: all required BUT whenever it is appropriate 'IF APPLICABLE'



## COMPREHENSIVE MODULE

- To provide more comprehensive information on top of Basic module, requested by business partners.
- Sustainable Finance datapoints (Table 1 SFDR PAI, EBA Pillar 3, Benchmark Regulation) as proxies for ESG management.
- Further language simplification achieved, wherever it is appropriate "IF APPLICABLE"
- **7 disclosures**
- Applying the Basic module is a prerequisite for applying the Comprehensive module

*For future consideration: link to the simplified EU taxonomy tool for aligned and eligible activities that the Platform of Sustainable Finance is currently developing.*

# EFRAG TESTED WITH BANKS AND SMES ASSOCIATIONS THE REVISED VSME BEFORE STARTING APPROVAL PROCESS

## BANKS

- Support new **Narrative-PAT** approach
- Support the guidance
- Support simplifications, including the replacement of the **materiality** principle with the “**if applicable**” principle.
- Clarified that certain **additional datapoints** requested during the public consultation are not essential

## SMEs

- Support for architectural changes
- Support for reformulated narrative (tables)
- Support for simplification including the replacement of the **materiality** principle with the “**if applicable**” principle
- Need for an online tools
- Need for additional guidance

## FREQUENTLY ASKED CONTENT OF GUIDANCE FOR FUTURE CONSIDERATION

1. *Templates of report and mock up disclosure*
2. *List of possible actions/policies for SMEs covering the ten topics. Examples of climate change transition plans for SMEs. Examples of impacts on workers in the value chain and affected communities for SMEs.*
3. *List of pollutants.*
4. *Sustainability matters per sector.*
5. *Linking VSME and ISO standards.*



# STRUCTURAL CHANGES APPROVED BY SR TEG (AFTER PUBLIC CONSULTATION)

## BASIC MODULE

- **B1** – Basis for preparation
- **B2 – (B2 + N3) – (B2)** Practices for transitioning towards a more sustainable economy + **(N3)** Management of material sustainability matters (YES/ NO dropdown menu)
- **B3** – Energy and GHG (**includes an additional datapoint on GHG intensity requested by banks**)
- **B4** – Pollution of air, water and soil
- **B5** – Biodiversity
- **B6** – Water
- **B7** – Resource Use, circular economy and waste management
- **B8** – Workforce – General characteristics
- **B9** – Workforce – Health and safety
- **B10** – Workforce – Remuneration, collective bargaining and training.
- **B11** – Convictions and fines for corruption and bribery

## COMPREHENSIVE MODULE

- **C1 – (N1)** – Strategy: Business Model/Sustainability
- **C2 – (B2 + N3 + N5) – (B2)** Description of practices, policies and future initiatives for transitioning towards a more sustainable economy.+ **(N3)** Management of matters + **(N5)** Governance: responsibilities for matters. (Semi-narrative - continuation of B2)
- **C3 – (BP1 + additional datapoint requested by banks) – (BP1)** Revenues from certain sectors + **(additional data point requested by banks)** Exclusion from EU reference benchmarks.
- **C4 – (BP2)** Gender diversity ratio in governance body
- **C5 – (BP3 + BP4)** GHG reduction and climate transition
- **C6 – (BP5)** Climate risks
- **C7 – (additional datapoints requested by banks) – Workforce** general additional characteristics (female/ male ratio) for undertakings with more than 50 employees + number of non-employees for undertakings with more than 50 employees
- **C8 – (BP7 + BP8)** Human rights policies and processes
- **C9 – (BP9)** Incidents related to severe human rights cases

# ESRS LSME



## Key characteristics

- Part of EFRAG mandate in CSRD', delegated act, effective 01/01/26 (two-year opt out)
- **Public-interest relevance:**
  - SMEs with bonds, shares and other securities traded in regulated market in the EU
  - small and non-complex institutions (SNCIs)
  - captive insurers/ reinsurers



How many expected to apply LSME?  
**CBA estimates around 3,000 undertakings in scope of this standard**

## State of play

- The draft ESRS LSME has been approved by the SR TEG members as a technical recommendation to SRB on 7 November, expected to be approved by SRB by end November.
- EFRAG is now finalizing the Revised LSME following the feedback received during the public consultation for a more simplified standard.
- Expected to be delivered to the EC in December 2024

# CSRD KEY ELEMENTS FOR LSME

## LSME SCOPE AND CONTENT FRAME

*Minimum content*

### 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).

## PROPORTIONALITY - ARTICLE 29c

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.

It refers to art 19a (6) and to the criteria in Article 29b, paragraphs 2, 3 ,4 and 5.

## PUBLIC ACCOUNTABILITY PERSPECTIVE

*Fair presentation*

- 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. (ARTICLE 29b (5))

*EU Law coverage*

# IMPORTANT CONSIDERATIONS – MESSAGES FROM PUBLIC CONSULTATION

- **Public accountability and SME proportionality** EFRAG designed the content of the ESRS LSME Exposure Draft achieving a reduction of almost 42% from ESRS for large companies (Set 1)
- **Approach to value chain cap:** LSME has the legal role of setting the value chain cap (CSRD Article 29(b)4) when drafting ESRS. For this reason, careful consideration have been given to value chain datapoints (see EFRAG IG 2)
- **LSME ED public consultation and field test:** significant concerns for the complexity of LSME ED and its capacity of reflecting the resources of SMEs. While there is support from part of the stakeholders for the architecture and in general for the capacity of LSME ED to meet the users' needs, also among those that agree with the current architecture, some recommend to further simplify the standard.
- **LSME Cost benefit analysis:** The initial findings showed net negative result for the LSME Exposure Draft, indicating that a further significant simplification is needed.

# SIGNIFICANT FURTHER STREAMLINING AFTER THE PUBLIC CONSULTATION

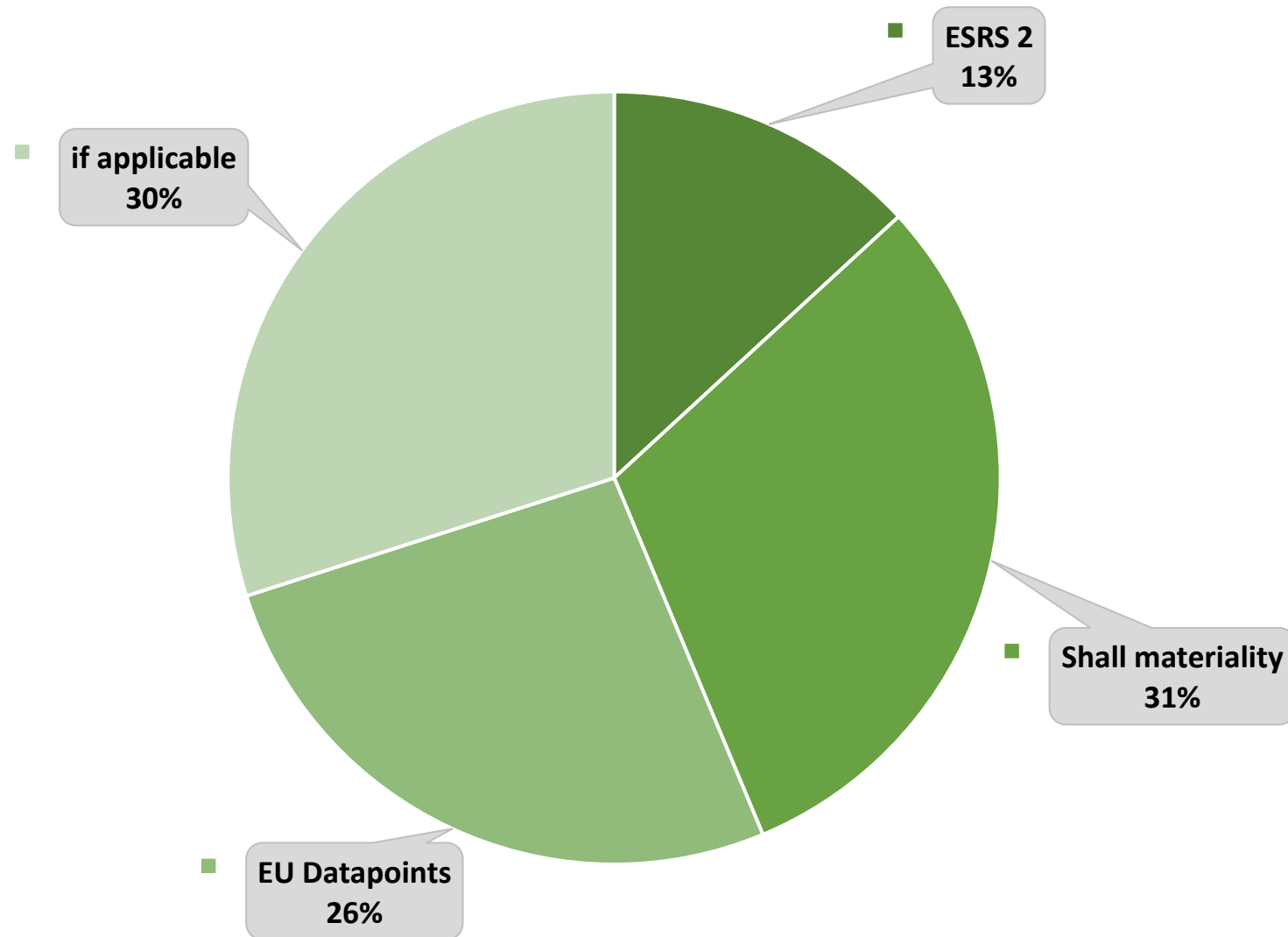


*LSME - 71% of "shall" disclosures compared to Set 1 under materiality (excluding "report if you have")*



*LSME - 49% of "shall" disclosures compared to LSME ED under materiality (excluding "report if you have")*

# DISTRIBUTION OF TYPE OF DISCLOSURES IN LSME



## LSME

### GENERAL SECTIONS

#### SECTION 1

##### *General requirements*

- Objective and scope
- Structure
- General requirements (concepts, materiality, etc.)

#### SECTION 2

##### *General disclosures*

- Basis for preparation
- GOV, SBM, IR
- Centralised disclosures for IR-1 and SBM-3: in AR topic specific requirements

#### SECTION 3

##### *Policies, actions and targets*

- Centralised PAT, in the main part only topic agnostic DRs
- In ARs topic specific requirements

### TOPICAL SECTIONS (only metrics)

#### SECTION 4

##### *Environment*

#### SECTION 5

##### *Social*

#### SECTION 6

##### *Business conduct*

### ACRONYMS AND GLOSSARY OF TERMS

### NON MANDATORY IMPLEMENTATION GUIDANCE





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