



EXPOSURE DRAFT

**ESRS FOR LISTED SMALL- AND
MEDIUM-SIZED ENTERPRISES
(ESRS LSME)**

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Exposure Draft
DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARD
FOR LISTED SMES
(ESRS LSME ED)

ESRS LSME ED is structured in six Sections:

Section 1 *General requirements*,
Section 2 *General Disclosures*,
Section 3 *Policies, actions and targets*,
Section 4 *Environment*,
Section 5 *Social*,
Section 6 *Business conduct*.

Each section has its progressive numbering of paragraphs and is accompanied by its appendices, as detailed in the front page of each Section in this Exposure Draft.

ESRS LSME ED – SECTION 1 GENERAL REQUIREMENTS

DISCLAIMER

Section 1 *General requirements* is set out in paragraphs 1–121. The following appendices of Section 1 have the same authority as the main body of the [draft] Standard:

- *Appendix A: Application Requirements,*
- *Appendix B: Qualitative characteristics of information,*
- *Appendix C: List of phased-in Disclosure Requirements, and*
- *Appendix D: Structure of ESRS sustainability statements.*

ESRS LSME ED Section 1 *General requirements* is accompanied by the following illustrative non-authoritative appendices:

- *Appendix E: Flowchart for determining disclosures to be included,*
- *Appendix F: Example of structure of ESRS sustainability statements,*
- *Appendix G: Example of incorporation by reference, and*
- *Appendix H: List of Disclosure/Application Requirements in Section 2.*

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Objective

1. The objective of this European Sustainability Reporting Standard for listed SMEs (LSME ESRS) is to specify the sustainability information that the undertakings identified in the paragraphs below shall disclose in their individual sustainability statement in accordance with Directive 2013/34/EU of the European Parliament and of the Council¹, as amended by Directive (EU) 2022/2464² (the “CSRD”), when they elect to present their sustainability statement in accordance with the sustainability reporting standards for small and medium-sized undertakings. Reporting in accordance with LSME ESRS does not exempt undertakings from other obligations laid down in substantive Union law. In particular, this [draft] Standard sets out *General Requirements* (Section 1), *General Disclosures* (Section 2), *Policies, actions and targets* (Section 3) and *Topical Disclosures* (Sections 4, 5 and 6) that specify the sustainability information to be disclosed in accordance with Directive 2013/34/EU as amended by Directive EU 2022/2464 Corporate Sustainability Reporting Directive when using the derogation in Art. 19a(6) and 29c.

Scope

2. The following undertakings fall within the scope of LSME ESRS (hereafter collectively referred to as ‘the LSME’ or ‘the undertaking’):
 - (a) small and medium-sized undertakings within the meaning of Article 3(2) and (3) of Directive 2013/34/EU which are public-interest entities as defined in point (a) of point (1) of Article 2 of that Directive and which are not micro-undertakings as defined in Article 3(1) of that Directive;
 - (b) small and non-complex institutions defined in point (145) of Article 4(1) of Regulation (EU) No 575/2013, provided they are large undertakings within the meaning of Article 3(4) of Directive 2013/34/EU or that they are small and medium sized undertakings within the meaning of Article 3(2) and (3) of that Directive which are public-interest entities as defined in point (a) of point (1) of Article 2 of that Directive and which are not micro undertakings as defined in Article 3(1) of that Directive; 16.12.2022 EN Official Journal of the European Union L 322/77;
 - (c) captive insurance undertakings defined in point (2) of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council (39), and captive reinsurance undertakings defined in point (5) of Article 13 of that Directive, provided that they are large undertakings within the meaning of Article 3(4) of Directive 2013/34/EU or that they are small and medium sized undertakings within the meaning of Article 3(2) and (3) of that Directive which are public-interest entities as defined in point (a) of point (1) of Article 2 of that Directive and which are not micro-undertakings as defined in Article 3(1) of that Directive.
3. An LSME is allowed to use the derogation in Art. 19a (6) and 29c of the CSRD and prepare its individual sustainability statement using this [draft] Standard when it is not a parent undertaking of a large group. A large group is a group that on a consolidated basis exceeds the limits of at least two of the three following criteria as defined in Art. 3 (7) of Directive 2013/34/EU:
 - (a) balance sheet total – EUR 20,000,000,
 - (b) net turnover – EUR 40,000,000,

¹ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

² Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (OJ L 322, 16.12.2022, p. 15).

- (c) average number of employees during the financial year – 250.
4. An LSME, which is a parent undertaking of a large group, is required to present a consolidated sustainability statement in its management report prepared according to the ESRS for large undertakings (Art. 29a and 29b of Directive 2013/34/EU as amended by the CSRD, Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023).
 5. In particular, the LSME ESRS specifies the information that an undertaking shall disclose about its **material impacts** and **material risks** in relation to environmental, social and governance **sustainability matters**. The LSME ESRS does not require undertakings to disclose any information on environmental, social or governance topics covered by this standard whenever they have determined a topic to be non-material (see *Appendix E: Flowchart for determining disclosures under LSME ESRS*). The information disclosed in accordance with this standard enables **users** of the **sustainability statement** to understand the undertaking's material impacts on people and environment as well as the material effects of sustainability matters on the undertaking's development, performance and position.

LSME General Requirements

6. This section lays out the general requirements that undertakings shall comply with when preparing and presenting their individual sustainability statement under article 19a (6) and article 29c of the CSRD. This [draft] Standard establishes sustainability reporting requirements for small- and medium-sized undertakings that are proportionate and relevant to their capacities and characteristics and to the scale and complexity of their activities.

1. Categories of disclosures, reporting areas and drafting conventions

1.1 Complying with [draft] LSME ESRS

7. The undertaking shall disclose, in accordance with this [draft] Standard, all of its material information concerning negative **impacts** and **risks** in relation to environmental, social, and governance matters. This information shall enable the understanding of the undertaking's negative **impacts** on those matters and of how they affect its development, performance and position.
8. The undertaking may disclose:
 - (a) material information regarding its positive **impacts** in relation to environmental, social and governance matters and
 - (b) sustainability-related financial **opportunities** that generate or are likely to generate material financial effects in the short-, medium- or long-term.
9. The undertaking shall present its individual sustainability statement containing material sustainability-related information as part of its management report (see chapter 8 *Structure of sustainability statement*).

1.2 LSME ESRS ED structure and reporting areas

10. This [Draft] Standard is composed of the following sections:
 - Section 1 *General requirements*,
 - Section 2 *General disclosures*,
 - Section 3 *Policies, actions and targets*,

Section 4 *Environmental disclosures*,
 Section 5 *Social disclosures*, and
 Section 6 *Business conduct disclosures*.

11. Section 1, Section 2 of this [draft] Standard are cross-cutting, whereas Section 3, Section 4, Section 5 and Section 6 are topical (environmental, social and business conduct disclosures, respectively). Both cross-cutting sections and topical sections are sector-agnostic, meaning that they apply to all undertakings regardless of the sector or sectors they operate in. Section 1 (*General requirements*), Section 2 (*General disclosures*) and Section 3 (*Policies, actions and targets*) apply to the **sustainability matters** covered in the topical sections. Section 2 of this [draft] Standard establishes the information that is to be mandatorily provided irrespective of materiality consideration by the undertaking at a general level, across all sustainability topics; however paragraph 32 below is applicable to Section 2 in determining the granularity of the information to be provided.
12. The topical sections of this [draft] Standard cover sustainability topics. Topics are broken down into topics, subtopics and, where necessary, sub-subtopics. Disclosure Requirements are organised in accordance with this topical approach. The table found in *Appendix A: Application Requirements* of this [draft] Standard (paragraph AR 18) offers the list of sustainability topics, subtopics and sub-subtopics (collectively, '**sustainability matters**') covered in the [draft] topical sections.
13. The Disclosure Requirements in this [draft] Standard cover the following reporting areas:
 - (a) **Governance** (GOV): the governance processes, controls and procedures used to monitor and manage **impacts** and **risks** (see Section 2 of this [draft] Standard, chapter 2 *Governance*);
 - (b) **Strategy** (SBM): how the undertaking's strategy and business model interact with its material **impacts** and **risks**, including how the undertaking addresses those **impacts** and **risks** (see Section 2 of this [draft] Standard, Chapter 3 *Strategy*);
 - (c) **Impact and risk management** (IR): the process(es) by which the undertaking (i) identifies impacts and risks and assesses their **materiality** (see Section 2 *Disclosure Requirement 9 (IR-1)*); (ii) manages material **sustainability matters** through **policies** and **actions** (see Section 3 *Disclosure Requirement 11 (IR-3)*); (iii) discloses information about **targets** if it has set them (see Section 3 *Disclosure Requirement 12 (IR-4)*); (iv) engages with **own workers**, workers in the value chain, **affected communities**, consumers and **end-users**, and their representatives on such **impacts** to the extent that it has **stakeholder engagement** in place (see Section 3 *Disclosure Requirement 13 (IR-5)*); and (v) remediates negative **impacts** and implements channels for **own workers**, workers in the value chain, **affected communities**, **consumers** and **end-users** to raise concerns to the extent that it has remediation activities and channels in place (see Section 3 *Disclosure Requirement 14 (IR-6)*); and
 - (d) **Metrics** (M): how the undertaking measures its performance (see topical sections 4, 5 and 6 of this [draft] Standard).
14. In addition to the disclosure requirements laid down in the sections listed in paragraph 10, when an undertaking concludes that an **impact** or **risk** is either not covered or not covered with sufficient granularity by a section of this standard, but is material due to the undertaking's specific facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking's **sustainability-related impacts and risks**. Application Requirements AR 1 to AR 6 of this section provide further guidance regarding entity-specific disclosures.

1.3 Drafting conventions

15. In this [draft] Standard:

- (a) the term '**impacts**' refers to **sustainability-related impacts** connected to the undertaking's business as identified through an **impact materiality** assessment process (see section 3.4 *Impact materiality*). It refers both to actual impacts and potential future impacts. In this [draft] Standard the term 'impacts' refers only to negative impacts unless otherwise specified, as positive impacts are disclosed on a voluntary basis; and
- (b) the term '**risks**' refers to the undertaking's sustainability-related financial risks, including those deriving from **dependencies** on natural, human and social resources as identified through a **financial materiality** assessment process (see Section 3.5).

Collectively, these are referred to as '**impacts** and **risks**' (IRs). They reflect the **double materiality** perspective of ESRS described in Section 3; the disclosure of **material opportunities** is made only on voluntary basis. See Section 2 of this [draft] Standard 41 to 43).

- 16. In this [draft] Standard, terms that are defined in the glossary of definitions (Annex II) are marked in **bold italic** except when they are used more than once in the same paragraph.
- 17. The ESRS structure the information that is to be disclosed under the Disclosure Requirements. Each disclosure requirement consists of one or more distinct datapoints. The term 'datapoint' can also refer to a narrative sub-element of a disclosure requirement.
- 18. In addition to the Disclosure Requirements, most sections also contain Application Requirements. Application Requirements support the application of the Disclosure Requirements and have the same authority as the other parts of this [draft] Standard.
- 19. This [draft] Standard uses the following terms to distinguish between different degrees of obligation on the undertaking to disclose information:
 - (a) "shall disclose" – indicates that the provision is prescribed by a Disclosure Requirement or datapoint;
 - (b) "may disclose" – indicates voluntary disclosure to encourage good practice.

In addition, this [draft] Standard uses the term "shall consider" when referring to issues, resources or methodologies that the undertaking is expected to take into account or to use in the preparation of a given disclosure if applicable.

2. Qualitative characteristics of information

- 20. When preparing its **sustainability statement**, the undertaking shall apply:
 - (a) the fundamental qualitative characteristics of information, i.e., relevance and faithful representation, and
 - (b) the enhancing qualitative characteristics of information, i.e., comparability, verifiability and understandability.
- 21. These qualitative characteristics of information are defined and described in *Appendix B* of the present section of this [draft] Standard.

3. Double materiality as the basis for sustainability disclosures

- 22. The undertaking shall report on **sustainability matters** based on the **double materiality** principle as defined and explained in this chapter.

3.1 Stakeholders and their relevance to the materiality assessment process

23. **Stakeholders** are those who can affect or can be affected by the undertaking. There are two main groups of stakeholders:
- (a) affected **stakeholders**: individuals or groups of individuals whose interests are affected or could be affected – whether positively or negatively – by the undertaking’s activities and its direct and indirect **business relationships** across its value chain, and
 - (b) users of **sustainability statements**: primary users of general purpose financial reporting (existing and potential investors, lenders and other creditors, including asset managers, credit institutions, insurance undertakings), as well as other users, including the undertaking’s business partners, trade unions and social partners, the civil society and non-governmental organisations, governments, analysts and academics.
24. Some, but not all, **stakeholders** may belong to both groups defined in paragraph 23.
25. To the extent that an undertaking engages with affected **stakeholders**, engagement with them supports the undertaking’s sustainability **materiality** assessment. This includes its processes for identifying and assessing actual and potential negative **impacts**, which then inform the assessment process for the identification of material **impacts** for the purposes of sustainability reporting (see Chapter 3.4 of this Section).

3.2 Material matters and materiality of information

26. Performing a **materiality** assessment (see chapters 3.4 and 3.5 of this Section) is necessary for the undertaking to identify the material **impacts** and **risks** that are to be reported. If an undertaking reports on its material positive **impacts** and/or **opportunities** on a voluntary basis, these are also covered by the materiality assessment.
27. The **materiality** assessment is the starting point for sustainability reporting under this [draft] Standard. Disclosure Requirement 9 (*IR-1*) in Section 2 of this [draft] Standard includes general disclosure requirements on the undertaking’s process for identifying **impacts** and **risks** and assessing their materiality. Disclosure Requirement 7 (*SMB-3*) of Section 2 provides general disclosure requirements on the material **impacts** and **risks** resulting from the undertaking’s materiality assessment.
28. The Application Requirements laid out in *Appendix A* of this Section, (paragraph AR 18 include the list of **sustainability** matters covered in the topical sections of this [draft] Standard. They are broken down by topics, sub-topics and sub-subtopics to support the **materiality** assessment. *Appendix E Flowchart for determining disclosures to be included* of this [draft] Standard provides an illustrative example of the materiality assessment process described in this Section.
29. A sustainability matter is ‘material’ if it meets the criteria defined for **impact materiality** (see chapter 3.4 of this Section) and/or the criteria defined for **financial materiality** (see chapter 3.5 of this Section).
30. Irrespective of the outcome of the materiality assessment, as stated also in paragraph 11 of this Section, the undertaking shall always disclose the information required by Section 2 of this [draft] Standard (i.e., all Disclosure Requirements and data points).
31. If, as a result of its **materiality** assessment, the undertaking concludes that a sustainability matter is material, it shall:
- (a) disclose information according to the Disclosure Requirements (including Application Requirements) related to that specific sustainability matter in the relevant sections of this [draft] Standard; and

- (b) disclose additional appropriate entity-specific disclosures (see paragraph 15 and AR 1 to AR 4 of this Section) whenever the material sustainability matter is either not covered by this [draft] Standard or is covered with insufficient granularity.
32. Applicable information prescribed within a Disclosure Requirement, including its datapoints, or within an entity-specific disclosure shall be disclosed when the undertaking determines, as part of its assessment of material information, that such information is relevant from at least one of the following perspectives:
- (a) the significance of the information in relation to the matter it purports to depict or explain or
- (b) the capacity of such information to meet users' decision-making needs, including the needs of primary users of general purpose financial reporting described in paragraph 50 and/or the needs of users whose principal interest lies in information about the undertaking's impacts.
33. If the undertaking concludes that climate change is not material and therefore omits all disclosure requirements related to E1 Climate Change, it shall disclose a detailed explanation of the conclusions of its **materiality** assessment with regard to climate change (see Section 2 Disclosure Requirement 10 (*IR-2*) *Disclosure Requirements in ESRS covered by the undertaking's sustainability statement*). This explanation shall include a forward-looking analysis of the conditions that could lead the undertaking to conclude that climate change is material in the future.
34. If the undertaking concludes that a topic other than climate change is not material and therefore omits all the corresponding Disclosure Requirements in Section 3 or in the topical Sections of this [draft] Standard, it may briefly explain the conclusions of its materiality assessment for that topic.
35. When reporting on **policies**, **actions** and **targets** in relation to a **sustainability matter** that has been assessed to be material, the undertaking shall apply the requirements outlined in Section 3 of this [draft] Standard (see Disclosure Requirement 11 (*IR-3*) – *Policies and actions in relation to sustainability matters*, and Disclosure Requirement 12 (*IR-4*) – *Targets in relation to sustainability matters*).
36. When disclosing information on **metrics** for a material **sustainability matter**, the undertaking shall apply the requirements stipulated in Sections 4, 5 and 6 of this [draft] Standard and it:
- (a) shall include the information prescribed by a Disclosure Requirement if it assesses such information to be material; and
- (b) may omit the information prescribed by a datapoint of a Disclosure Requirement if it assesses such information to be not material and concludes that such information is not needed in order to meet the objective of the Disclosure Requirement in question.
37. If the undertaking omits the information prescribed by a datapoint derived from other EU legislation listed in *Appendix B* of Section 2 of this [draft] Standard, it shall explicitly state that the information in question is 'not material'.
38. The undertaking shall establish how it applies qualitative or quantitative criteria, including appropriate thresholds, to determine:
- (a) the information that is to be disclosed on **metrics** for a material sustainability matter and
- (b) the information that is to be disclosed as entity-specific disclosures.

3.3. Double materiality

39. **Double materiality** has two dimensions, namely **impact materiality** and **financial materiality**. Unless otherwise specified, the terms ‘material’ and ‘materiality’ used throughout this [draft] Standard refer to **double materiality**.
40. **Impact materiality** and **financial materiality** assessments are interrelated, and the interdependencies between these two dimensions shall be considered. In general, the starting point is the assessment of impacts, although there may also be **material risks** (and **opportunities**) that are not related to the undertaking’s **impacts**. A sustainability impact may be financially material from inception or become financially material when it could reasonably be expected to affect the undertaking’s financial position, financial performance, cash flows, its access to finance or the cost of capital over the short-, medium- or long-term. Impacts are captured by the **impact materiality** perspective regardless of whether or not they are financially material.
41. When identifying and assessing the **impacts** and **risks** in the undertaking’s **value chain** in order to determine their **materiality**, the undertaking shall focus on areas where they are deemed likely to arise based on the nature of the activities, business relationships, geographies and other relevant risk factors.
42. The undertaking shall consider how it is affected by its **dependencies** (if any) on the availability of natural and social resources at appropriate prices and quality independently of its potential **impacts** on those resources.
43. An undertaking’s principal **impacts** and **risks** are understood to be the same as the material impacts and risks identified with the **double materiality** principle and therefore reported in its **sustainability statement**.
44. The undertaking shall apply the criteria set under chapters 3.4 and 3.5 in this section of these [draft] Standard using appropriate quantitative and/or qualitative thresholds. Appropriate thresholds are necessary to determine which **impacts** and **risks** are identified as material and addressed by the undertaking and to determine which **sustainability matters** are material for reporting purposes. Some existing standards and frameworks use the term ‘most significant impacts’ when referring to the threshold used to identify the impacts described in this [draft] Standard as ‘material impacts’.

3.4 Impact materiality

45. A **sustainability matter** is material from an impact perspective when it pertains to the undertaking’s material actual or potential **impacts** on people or the environment over the short-, medium- or long-term. Impacts include those connected to the undertaking’s own operations and to its upstream and downstream value chain, including through its products and services as well as through its business relationships. **Business relationships** include those in the undertaking’s upstream and downstream **value chain** and are not limited to direct contractual relationships.
46. In the context of this [draft] Standard, impacts on people or the environment include impacts in relation to environmental, social and governance matters.
47. To the extent that the undertaking adopts content from the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises in its impact management processes, its impact **materiality** assessment is informed by the due diligence³ process. Due diligence is the process by which undertakings identify, prevent, mitigate and account for how they address the actual and potential impacts on people and the environment connected with their business.
48. For actual negative impacts, materiality is based on the severity of the impact, whereas for potential negative impacts it is based on the severity and likelihood of the impact. Severity is based on:

³ This process is described in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

- (a) the scale,
- (b) scope and
- (c) irremediable character of the impact.

In case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

3.5 Financial materiality

- 49. The scope of ***financial materiality*** for sustainability reporting results from the expansion of the scope of materiality used for determining which information should be included in the undertaking's financial statements.
- 50. The ***financial materiality*** assessment corresponds to the identification of information that is considered material for primary users of general-purpose financial reporting in making decisions relating to providing resources to the undertaking. In particular, information is considered material for primary users of general-purpose financial reporting if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's ***sustainability statement***.
- 51. A sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material ***financial effects*** on the undertaking. This is the case when a sustainability matter generates or may generate ***risks*** that have a material influence, or that could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or the cost of capital over the short-, medium- or long-term. Risks may derive from past or future events as well as from ***dependencies*** on natural, human and social resources.
- 52. The ***financial materiality*** of a sustainability matter is not constrained to matters that are within the control of the undertaking but includes information on ***material risks*** attributable to ***business relationships*** with other undertakings, including its subsidiaries, or ***stakeholders*** beyond the scope of financial control.
- 53. ***Dependencies*** on natural and social resources can constitute sources of financial ***risks***. ***Dependencies*** may trigger effects in two possible ways:
 - (a) they may influence the undertaking's ability to continue to use or obtain the resources needed in its business processes as well as the quality and pricing of those resources, and
 - (b) they may affect the undertaking's ability to rely on relationships needed in its business processes on acceptable terms.
- 54. The ***materiality*** of ***risks*** is assessed based on a combination of likelihood of occurrence and potential magnitude of the ***financial effects***.

3.6 Material impacts or risks arising from actions addressing sustainability matters

- 55. The undertaking's ***materiality*** assessment process may lead to the identification of situations in which its ***actions*** addressing certain ***impacts*** or ***risks*** in relation to a sustainability matter might have material negative impacts, or cause ***material risks***, in relation to one or more ***sustainability matters***. Examples of such actions include:
 - (a) an action plan to decarbonise production involving the abandonment of certain products, which might have material negative impacts on the undertaking's ***own workforce*** and result in ***material risks*** due to redundancy payments; and

- (b) an action plan of an automotive **supplier** focusing on the supply of electric vehicles, which might lead to stranded assets in the production of supply parts for conventional vehicles.

56. In such situations, the undertaking shall:

- (a) mention the existence of material negative impacts or **material risks** together with the **actions** that generate them, with a cross-reference to the topic to which the impacts or risks relate; and
- (b) provide a description of how the material negative impacts or **material risks** are addressed under the topic to which they relate.

3.7 Level of disaggregation

57. When needed to have a proper understanding of its material **impacts** and **risks**, the undertaking shall disaggregate the reported information in a way that reflects the appropriate level at which significant variations of material impacts and/or risks materialise, such as in specific countries or sites.

4. Value chain

4.1 Reporting undertaking and value chain

58. The information about the reporting undertaking provided in the **sustainability statement** shall be extended to include information on the material **impacts** and **risks** connected to the undertaking through its **business relationships** in the upstream and/or downstream **value chain** ('value chain information'). Based on the results of the materiality assessment, investment and other business relationships with the undertaking's subsidiaries are also sources of material impacts and risks. In extending the information about the reporting undertaking, the undertaking shall include material impacts and risks connected with its upstream and downstream value chain(s):
- (a) following the outcome of its **materiality** assessment and, if applicable, of its due diligence process and
 - (b) in accordance with any specific requirements related to the value chain of topical sections of this [draft] Standard.
59. The extension of the information about the reporting undertaking to include value chain information does not require information on each and every **actor in the value chain**, but only the inclusion of material **value chain** information.
60. The undertaking shall include material value chain information when this is necessary to:
- (a) allow users of **sustainability statements** to understand the undertaking's material **impacts** and **risks**; and/or
 - (b) produce a set of information that meets the qualitative characteristics of information (see Appendix B of this Section).
61. When determining at which level within its own operations and upstream and downstream value chain does a material sustainability matter arise, the undertaking shall use its assessment of **impacts** and **risks** following the **double materiality** principle (see chapter 3 of this [draft] Standard).
62. If subsidiaries, associates or joint ventures are part of the undertaking's value chain – for example, as suppliers – the undertaking shall include information related to those subsidiaries, associates or joint ventures following paragraph 58 in accordance with the

approach adopted for the other **business relationships** in the value chain. In this case, when determining impact **metrics**, the data of the subsidiaries, associate or joint venture are not limited to the share of equity held, but taken into account on the basis of the impacts that are connected with the undertaking's products and services through its business relationships.

4.2 Estimation using sector averages and proxies

63. The undertaking's ability to obtain the necessary upstream and downstream **value chain** information may vary depending on various factors such as the undertaking's contractual arrangements, the level of control that it exercises on the operations outside the consolidation scope and its buying power. If the undertaking does not have the ability to control the activities of its upstream and/or downstream value chain and its business relationships, obtaining value chain information may be more challenging.
64. There are circumstances where the undertaking cannot collect information about its upstream and downstream **value chain** as required by paragraph 58 despite making reasonable efforts to do so. In these circumstances, the undertaking shall estimate the information to be reported about its upstream and downstream value chain by using all reasonable and supportable information such as sector-average data and other proxies.
65. Obtaining **value chain** information could be particularly challenging for an LSME if its upstream and/or downstream value chain entities are not in the scope of the CSRD, as the LSME may have less control over its value chain and fewer resources to collect data.
66. The undertaking may rely on and refer to information contained in the ESRS sustainability statement of an actor in its value chain when such an actor publishes mandatory ESRS sustainability statement, if that statement contains the information needed in the preparation of the undertaking's ESRS sustainability statement. If an **actor in the value chain** that does not prepare the mandatory ESRS sustainability statement nevertheless publishes sustainability information according to other standards or frameworks (such as any voluntary standard issued in the EU [VSME] or GRI Standards, or IFRS Sustainability Disclosures Standards, or EMAS), the undertaking may rely on and refer to information contained in that sustainability statement provided that such information is subject to at least the same level of assurance as its sustainability statement. If there are clear indications that material impacts and risks are not addressed appropriately, then further work on the specific impacts and risks in the value chain may be needed.
67. With reference to **policies** and **actions**, the undertaking's reporting shall include upstream and/or downstream **value chain** information to the extent that those policies and actions involve **actors in the value chain**.
68. When the undertaking includes value chain information in its metrics, in many cases and in particular for environmental matters in which proxies are available the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its upstream and downstream value chain, for example, when calculating the undertaking's **GHG Scope 3 emissions**.
69. The incorporation of estimates made using sector-average data or other proxies shall not result in information that does not meet the qualitative characteristics of information (see Chapter 2 and Section 6.2 *Sources of estimation and outcome uncertainty* of this Section).

5. Time horizons

5.1 Reporting period

70. The reporting period for the undertaking's **sustainability statement** shall be consistent with that of its financial statements.

5.2 Linking past, present and future

71. Whenever relevant, the undertaking shall establish appropriate linkages in its **sustainability statement** between retrospective and forward-looking information to foster a clear understanding of how historical information relates to future-oriented information.

5.3 Reporting progress against the base year

72. A base year is the historical reference date or period for which information is available and against which subsequent information can be compared over time.
73. The undertaking shall present comparative information in respect of the base year for amounts reported in the current period when reporting on the developments and progress towards a **target**, when a target is adopted, unless the relevant Disclosure Requirement already defines how to report on such progress. The undertaking may also include historical information about achieved milestones between the base year and the reporting period when this is relevant information.

5.4 Definition of short-, medium- and long-term for reporting purposes

74. When preparing its individual **sustainability statement**, the undertaking shall adopt the following time intervals as of the end of the reporting period:
- (a) for the short-term time horizon, the period adopted by the undertaking as the reporting period in its financial statements;
 - (b) for the medium-term time horizon, from the end of the short-term reporting period defined in (a) up to five years; and
 - (c) for the long-term time horizon, more than five years.
75. The undertaking shall use an additional breakdown for the long-term time horizon when **impacts** or **actions** are expected in a period longer than five years, if necessary, to provide relevant information to users of **sustainability statements**.
76. If different definitions of medium- or long-term time horizons are required for specific items of disclosure in a topical section of this [draft] Standard, the definitions in the topical section shall prevail.
77. There may be circumstances where the use of the medium- or long-term time horizons outlined in paragraph 74 results in non-relevant information, as the undertaking uses a different definition for (i) its processes of identification and management of material **impacts** and **risks** or for (ii) the definition of its **actions**. These circumstances may be due to industry-specific characteristics such as cash flow and business cycles, the expected duration of capital investments, the time horizons over which the users of **sustainability statements** conduct their assessments and the planning horizons typically used in the undertaking's industry for decision-making. In these circumstances, the undertaking may adopt a different definition of medium- and/or long-term time horizons (see Section 2 Disclosure Requirement 2 (BP-2) paragraph 8).
78. References to 'short-term', 'medium-term', and 'long-term' in this [draft] Standard refer to time horizon as determined by the undertaking according to the provisions in paragraphs 74 to 78.

6. Preparation and presentation of sustainability information

79. This chapter provides general requirements to be met when preparing and presenting sustainability information.

6.1 Presenting comparative information

80. The undertaking shall disclose comparative information in respect of the previous period for all quantitative **metrics** and monetary amounts disclosed in the current period. When relevant to an understanding of the current period's **sustainability statement**, the undertaking shall also disclose comparative information for narrative sustainability disclosures.
81. If the undertaking reports comparative information that differs from the information reported in the previous period, when this information is compatible with a reasonable effort it shall disclose:
- (a) the difference between the figure reported in the previous period and the revised comparative figure and
 - (b) the reasons for the revision of the figure.
82. When it is not possible with reasonable effort to adjust comparative information for one or more prior periods, the undertaking shall disclose this fact.
83. When a topical section of this [draft] Standard requires the undertaking to present more than one comparative period for a metric or datapoint, the requirements of that section shall prevail.

6.2 Sources of estimation and outcome uncertainty

84. When quantitative **metrics** and monetary amounts, including upstream and downstream **value chain** information (see Chapter 4 of this Section), cannot be measured directly and can only be estimated, measurement uncertainty may arise.
85. The undertaking shall disclose information to help users understand the most significant uncertainties affecting the quantitative metrics and monetary amounts reported in its sustainability statement.
86. Even a high level of measurement uncertainty would neither necessarily prevent such an assumption or estimate from yielding useful information nor from meeting the qualitative characteristics of information (see *Appendix B* of this [draft] Standard).
87. Data and assumptions used in preparing the **sustainability statement** shall be consistent to the largest extent possible with the corresponding financial data and assumptions used in the undertaking's financial statements.
88. Some topical sections of this [draft] Standard require the disclosure of information, such as explanations about possible future events that have uncertain outcomes. In judging whether information about such possible future events is material, the undertaking shall refer to the criteria set in Chapter 3 of this Section and consider:
- (a) the potential **financial effects** of the events (i.e., the possible outcome) in terms of amount and likelihood; and
 - (b) the range of severity and likelihood of the impacts on people or the environment resulting from the possible future events, taking into account the factors of severity specified in paragraph 48.

6.3 Updating disclosures about events after the end of the reporting period

89. In some cases, the undertaking may receive information after the reporting period but before the management report is approved for issuance. If such information provides evidence or insights about conditions existing at period end, the undertaking shall update estimates and sustainability disclosures, in light of the new information, if the provision of updated estimates and disclosures is possible with reasonable effort. If this is not possible with reasonable effort, the undertaking shall provide narrative information describing the

conditions existing at period end and the possible implications on the sustainability statement.

6.4 Changes in preparation or presentation of sustainability information

90. The definition and calculation of **metrics**, including metrics used to set **targets** and monitor progress towards them shall be consistent over time (only in case targets have been specifically set by the undertaking). Unless it is not possible with reasonable effort to do so, the undertaking shall provide restated comparative figures (see Section 2 Disclosure Requirement 2 (BP-2)) when it has:
- (a) redefined or replaced a metric or **target** or else; and
 - (b) identified new information in relation to the estimated figures disclosed in the preceding period, and the new information provides evidence of circumstances that existed in that period.

6.5 Reporting errors in prior periods

91. The undertaking shall correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is not possible with reasonable effort to do so. This requirement does not extend to reporting periods before the first year of application of ESRS LSME by the undertaking.
92. Prior period errors are omissions from, and misstatements in, the undertaking's **sustainability statement** for one or more prior periods. Such errors arise from a failure to use, or from the misuse of, reliable information that:
- (a) was available when the management report – which includes the sustainability statements for those periods – was authorised for issuance and that
 - (b) could reasonably be expected to have been obtained and considered in the preparation of sustainability disclosures included in these reports.
93. Such prior period errors include the effects resulting from mathematical mistakes, mistakes in applying the definitions used for **metrics**, oversights or misinterpretations of facts, and fraud.
94. Potential errors in a current period discovered in that same period are corrected before the management report is authorised for issuance. However, material errors are sometimes discovered only in a subsequent period.
95. If it is not possible with reasonable effort to determine the effect of an error on all prior presented periods, the undertaking shall restate the comparative information to correct the error from the earliest practicable date. When correcting disclosures for a prior period, the undertaking shall not use hindsight either in making assumptions about what the management's intentions would have been in a prior period or in estimating the amounts disclosed in a prior period. This requirement applies to correction of both backward-looking and forward-looking disclosures.
96. Corrections of errors are distinguished from changes in estimates. Estimates are to be revised as soon as additional information becomes available (see Section 2 Disclosure Requirement 2 (BP-2)).

6.6 Classified and sensitive information, and information on intellectual property, know-how or results of innovation

97. The undertaking is not required to disclose **classified information** or **sensitive information** even if such information is considered material.

98. When disclosing information about its **strategy, plans** and **actions**, where a specific piece of information corresponding to intellectual property, know-how or the results of innovation is relevant to meet the objective of a Disclosure Requirement, the undertaking may nevertheless omit that specific piece of information if it:
- (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question:
 - (b) has commercial value because it is secret; and
 - (c) has been subject to reasonable steps taken by the undertaking to keep it secret.
99. If the undertaking omits **classified information** or **sensitive information** or a specific piece of information corresponding to intellectual property, know-how or the results of innovation because it meets the previous paragraph's criteria, it shall comply with the disclosure requirement in question by disclosing all other required information.
100. The undertaking shall make reasonable effort to ensure that, beyond the omission of the specific **classified information** or **sensitive information** or of the specific piece of information corresponding to intellectual property, know-how or the results of innovation, the overall relevance of the disclosure in question is not impaired.

6.7 Matters in the course of negotiation

101. The undertaking is not required to disclose information related to impending developments or matters in the course of negotiation, even if such information is considered material.
102. This exemption could apply, in exceptional cases, where, in the duly justified opinion of the members of the **administrative, management and supervisory bodies**, acting within the competences assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking. The exception is applicable provided that the omission does not prevent a fair and balanced understanding of the undertaking's development, performance, and position, and the impact of its activity.

7. Structure of the sustainability statement

103. This chapter provides the basis for the presentation of the information about **sustainability matters** prepared in compliance with the CSRD and this [draft] Standard (i.e., **sustainability statement**) within the undertaking's management report. Such information is presented in a dedicated section of the management report identified as the sustainability statement. Appendix F *Example of structure of ESRS sustainability statements* of this Section provides an illustrative example of a sustainability statement structured according to the requirements laid out in this chapter.

7.1 General presentation requirement

104. Sustainability information shall be presented:
- (a) in a way that allows for a distinction between information required by disclosures in this [draft] Standard and other information included in the management report and
 - (b) under a structure that facilitates access to and understanding of the **sustainability statement**, both in human and machine-readable formats.

7.2 Content and structure of the sustainability statement

105. Except for the possibility to incorporate information by reference in section 8.1 *Incorporation by reference* of this section, the undertaking shall report all the applicable disclosures (sector-agnostic and entity-specific) required by this [draft] Standard as per chapter 1 of this Section, within a single section of the management report.
106. In its **sustainability statement**, the undertaking shall report the disclosures pursuant to Article 8 of Regulation (EU) 2020/852 of the European Parliament and the Council⁴ and Commission Delegated Regulations that specify the content of those disclosures. The undertaking shall ensure that these disclosures are separately identifiable within the sustainability statement. Disclosures related to each of the environmental objectives defined in the Taxonomy Regulation shall be presented together in a clearly identifiable part of the environmental section of the sustainability statement. These disclosures are not subject to the provisions of ESRS with the exception of this paragraph and the first sentence of paragraph 105 of this Standard.
107. If the undertaking includes in its individual **sustainability statement** additional disclosures stemming from (i) other legislation – which requires the undertaking to disclose sustainability information – or (ii) generally accepted sustainability reporting standards and frameworks – including non-mandatory guidance and sector-specific guidance published by other standard-setting bodies (such as technical material issued by the International Sustainability Standards Board or the Global Reporting Initiative) – such disclosures shall:
- (a) be clearly identified with an appropriate reference to the related legislation, standard or framework (see Section 2 Disclosure Requirement 2 (*BP-2*), paragraph 15) and
 - (b) meet the requirements set for qualitative characteristics of information specified in chapter 2 and *Appendix B* of this Section.
108. The undertaking shall structure its **sustainability statement** in four parts in the following order: (i) general information, (ii) environmental information (including disclosures pursuant to Article 8 of Regulation (EU) 2020/852), (iii) social information and (iv) governance information. While respecting the provision in this Section (chapter 3.6 *Material impacts or risks arising from actions to address sustainability matters* of this [draft] Standard), when information provided in one part also covers information to be reported in another, the undertaking may refer in one part to information presented in another, thereby avoiding duplications. The undertaking may apply the detailed structure illustrated in *Appendix F* of this Section.
109. Where the undertaking develops material entity-specific disclosures, it shall report those disclosures alongside the most relevant disclosure in this [draft] Standard.

8. Linkages with other parts of corporate reporting and connected information

110. The undertaking shall provide information that enables users of its **sustainability statement** to understand the connections between different pieces of information in the statement, and the connections between the information in the sustainability statement and other information that the undertaking discloses in other parts of its corporate reporting.

⁴ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

8.1 Incorporation by reference

111. Provided that the conditions in paragraph 112 are met, information prescribed by a Disclosure Requirement of these [draft] Standard – including a specific datapoint prescribed by it – may be incorporated in the **sustainability statement** by reference to:
- (a) another section of the management report;
 - (b) the financial statements;
 - (c) the corporate governance statement (if it is not part of the management report);
 - (d) the remuneration report required by Directive 2007/36/EC of the European Parliament and of the Council⁵;
 - (e) the universal registration document as referred to in Article 9 of Regulation 2017/1129⁶; and
 - (f) public disclosures under Regulation 575/2013 of the European Parliament and of the Council (Pillar 3 disclosures)⁷.
- If the undertaking incorporates by reference information from Pillar 3 disclosures, it shall ensure that the information matches the scope of consolidation used for the **sustainability statement** by complementing the incorporated information with additional elements as necessary.
112. The undertaking may incorporate information by reference to the documents, or part of the documents, listed in paragraph 111 provided that the disclosures incorporated by reference:
- (a) constitute a separate element of information and are clearly identified in the relevant document as addressing the relevant Disclosure Requirement or the relevant specific datapoint prescribed by a Disclosure Requirement;
 - (b) are published before or at the same time as the management report;
 - (c) are in the same language as the **sustainability statement**;
 - (d) are subject to at least the same level of assurance as the sustainability statement; and
 - (e) meet the same technical digitalisation requirements as the sustainability statement.
113. Provided that these conditions established in paragraph 109 are met, information prescribed by a Disclosure Requirement of this [draft] Standard – including a specific datapoint prescribed by a Disclosure Requirement – may be incorporated into the **sustainability statement** by reference to the undertaking's report prepared according to EU Eco-Management and Audit Scheme (EMAS) Regulation (EU) No. 1221/2009⁸. In this case, the undertaking shall ensure that the information incorporated by reference is produced using the same basis for preparation of ESRS information, including scope of consolidation and treatment of **value chain** information.

⁵ Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies (OJ L 184, 14.7.2007, p. 17).

⁶ Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (OJ L 168, 30.6.2017, p. 12).

⁷ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

⁸ Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organisations in a community eco-management and audit scheme (EMAS), repealing Regulation (EC) No 761/2001 and Commission Decisions 2001/681/EC and 2006/193/EC (OJ L 342, 22.12.2009, p. 1).

114. In the preparation of its **sustainability statement** using incorporation by reference, the undertaking shall consider the overall cohesiveness of the reported information and ensure that the incorporation by reference does not impair the readability of the sustainability statement. *Appendix G: Example of incorporation by reference* of this [draft] Standard offers an illustrative example of incorporation by reference (See Section 2 Disclosure Requirement 2 (BP-2)).

8.2 Connected information and connectivity with financial statements

115. The information provided in the undertaking's sustainability statements shall be coherent with what is reported in the financial statements and, where applicable, in other parts of the undertaking's corporate reporting. This information shall be presented in a way that facilitates an understanding of the linkages that exist with the information reported in different documents (i.e., by using appropriate cross-references or by explaining how the different pieces of information or assumptions used relate amongst each other).
116. In particular, as this standard follows an individual perspective, the undertaking may explain how the monetary amounts presented in its sustainability statement relate to its individual and/or consolidated financial statements.
117. Topical Sections of this [draft] Standard may define requirements in order to include reconciliations or to illustrate consistency of data and assumptions for specific Disclosure Requirements. In such cases, the requirements in these Sections shall prevail.

9. Transitional provisions

9.1 Transitional provision related to chapter 4: Value chain

118. For the first 3 years of the undertaking's sustainability reporting under the [draft] Standard, in the event that not all the necessary information regarding its upstream and downstream **value chain** is available, the undertaking shall explain the efforts it has made to obtain the necessary information about its upstream and downstream value chain, the reasons why not all of the necessary information could be obtained and its plans for obtaining such information in the future.
119. For the first three years of its sustainability reporting under this [draft] Standard, in order to account for the difficulties that it may encounter when gathering information from actors throughout its **value chain** the undertaking:
- (a) may limit upstream and downstream **value chain** information to information available in-house, such as data already available to the undertaking and publicly available information – when disclosing information on policies, **actions** and **targets** in accordance with Section 3 of these [draft] Standard; and
 - (b) is not required to include upstream and downstream **value chain** information except for datapoints derived from other EU legislation as listed in Section 2, *Appendix B*, when disclosing metrics.

9.2 Transitional provision related to section 6.1 Presenting comparative information

120. To ease the first-time implementation of this [draft] Standard, the undertaking is not required to disclose the comparative information required by this Section, chapter 6.1 *Presenting comparative information*, in the first year of preparation of the **sustainability statement** under this [draft] Standard. For disclosure requirements listed in *Appendix C: List of phased-in Disclosure Requirements*, this transitional provision applies with reference to the first year of mandatory application of the phased-in disclosure requirement.

9.3 Transitional provision: List of Disclosure Requirements that are phased-in for [draft] Standard to year two or subsequent years

121. *Appendix C: List of phased-in Disclosure Requirements* in this Section sets phase-in provisions for the Disclosure Requirements or datapoints of Disclosure Requirements in this [draft] Standard, which may be omitted or which are not applicable in the first year(s) of preparation of the **sustainability statement** under this [draft] Standard. The phased-in provisions are only applicable to LSMEs that do not opt out or cannot opt out according to Art.19 a (7) of Directive (EU) 2022/2464.

Appendix A: Application Requirements

This appendix is an integral part of this [draft] Standard and has the same authority as the other parts of the [draft] Standard.

Application requirements – Entity-specific disclosures

- AR.1 Entity-specific disclosures shall enable **users** to understand the undertaking's **impacts** and **risks** in relation to environmental, social or governance matters.
- AR.2 When developing entity-specific disclosures, the undertaking shall ensure that:
- (a) the disclosures meet the qualitative characteristics of information set out in chapter 2 *Qualitative characteristics of information* and that
 - (b) its disclosures include, where applicable, all material information related to the reporting areas of governance, strategy, **impact** and **risk** management and **metrics** and **targets** (see Section 2 chapters 2 to 4, Section 3 DR 11 and DR 12, and the topical sections of this [draft] Standard).
- AR.3 When determining the usefulness of **metrics** for inclusion in its entity-specific disclosures, the undertaking shall consider whether:
- (a) its chosen performance metrics provide insight into:
 - i. how effective its practices are in reducing negative outcomes for people and the environment (regarding impacts) and/or
 - ii. the likelihood that its practices result in **financial effects** on the undertaking (regarding **risks**); whether
 - (b) the measured outcomes are sufficiently reliable, meaning whether they do not involve an excessive number of assumptions or unknowns that would otherwise render the metrics too arbitrary to constitute a faithful representation; and whether it has provided sufficient contextual information to interpret performance metrics appropriately.
- AR.4 When developing its entity-specific disclosures, the undertaking shall carefully consider:
- (a) comparability between undertakings while still ensuring relevance of the information provided, recognising that comparability may be limited for entity-specific disclosures, and
 - (b) comparability over time: consistency of methodologies and disclosures is a key factor for achieving comparability over time.
- AR.5 When developing its entity-specific disclosures, the undertaking shall consider whether the available and relevant frameworks, initiatives, reporting standards and benchmarks (such as technical material issued by the International Sustainability Standards Board, the Global Reporting Initiative [or sector specific ESRS]) provide elements that can support comparability to the maximum extent possible. In particular, the undertaking may complement its disclosures, prepared on the basis of the topical Sections of this [draft] ESRS, with an appropriate set of additional disclosures to cover **sustainability matters** that are material to the undertaking in its sector(s), by using available best practices and/or available industry-based frameworks or reporting standards **[NOTE TO THE CONSTITUENTS: THIS ASPECT MAY BE ADJUSTED REFLECTING THE OUTCOME OF THE CONSULTATION ON THE APPROACH TO SECTORS FOR SME]**.
- AR.6 AR 6. The need for entity-specific disclosures is particularly important for financial undertakings subject to [draft] ESRS LSME as the sustainability matters in these sectors are very specific. These additional disclosures may derive from sustainable finance legislation or generally accepted sustainability reporting standards and frameworks

applicable to financial actors, including non-mandatory standards and guidance. EFRAG expects to issue sector ESRS dedicated to the financial sector that will further enhance reporting standards.

Application requirements – Double materiality

Stakeholders and their relevance to the materiality assessment process

- AR.7 In addition to the categories of **stakeholder** listed in paragraph 23, common categories of **stakeholders** are **employees** and other workers, **suppliers**, **consumers**, **customers**, **end-users**, local communities and persons in vulnerable situations, and public authorities including regulators, supervisors and central banks.
- AR.8 Nature may be considered as a silent **stakeholder**. In this case, ecological data and data on the conservation of species may support the undertaking's **materiality** assessment.
- AR.9 If the undertaking has engaged with affected **stakeholders**, its **materiality** assessment is informed by the dialogue with them. The undertaking may engage with affected **stakeholders** or their representatives (such as **employees** or trade unions), along with users of sustainability reporting and other experts, to provide input or feedback on its conclusions regarding its material **impacts** and **risks**.

Double materiality

- AR.10 If there is a high number of actors in the **value chain**, when performing its materiality assessment the undertaking is not expected to account for each and every one of those individual actors. However, in the first instance it may assess the value chain at a more aggregated level, identifying general areas where the likelihood of material impacts and risks is the greatest. For example, this could be done by main groups of suppliers depending on their operating contexts and based on the characteristics of the business model and/or based on specific activities, business relationships, geographies or other factors giving rise to the heightened likelihood of adverse impacts and financial risks (see Section 2 IR – *Processes to identify and assess material impacts and risk*, paragraph 49 a). A more granular approach is expected to be applied in case specific sustainability issues are identified – for instance, due to size/geography or the nature of products/services. In this case, the undertaking is expected to focus on the specific actor(s) involved.

Assessment of impact materiality

- AR.11 In assessing **impact materiality** and determining the material matters that are to be reported, the undertaking shall consider the following three steps:
- (a) understanding the context in relation to its impacts including its activities, business relationships and **stakeholders**;
 - (b) identifying actual and potential impacts by engaging with relevant **stakeholders** and experts. In this step, the undertaking may rely on scientific and analytical research on impacts on **sustainability matters**; and
 - (c) assessing the materiality of its actual and potential impacts and determining the matters that are material. In this step, the undertaking shall adopt thresholds to determine which of the impacts will be covered in its **sustainability statement**.

Characteristics of severity

- AR.12 Severity is determined by the following factors:
- (a) scale: how grave the negative impact is on people or the environment;
 - (b) scope: how widespread the negative impacts are. In the case of environmental impacts, the scope may be understood as the extent of environmental damage or a geographical perimeter. In the case of impacts on people, the scope may be understood as the number of people adversely affected; and

- (c) irremediable character: whether and to what extent the negative impacts could be remediated, i.e., by restoring the environment or affected people to their prior state.

AR.13 Any one of these three characteristics (scale, scope and irremediable character) can render a negative impact severe. In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

Impacts connected with the undertaking

AR.14 Consider the following cases by way of illustration:

- (a) if the cobalt in the undertaking's products has been mined using **child labour**, the negative impact (i.e., **child labour**) is connected with the undertaking's products through the tiers of **business relationships** in its upstream **value chain**. These relationships include the smelter and minerals trader as well as the mining enterprise that uses **child labour**, and
- (b) if the undertaking provides financial loans to an enterprise for business activities which, in breach of agreed standards, result in the contamination of water and land surrounding the operations, this negative impact is then connected to the undertaking through its relationship with the enterprise that it provides the loans to.

Assessment of financial materiality

AR.15 The following are examples of how impacts and **dependencies** constitute sources of **risks**:

- (a) when the undertaking's **business model** depends on a natural resource – for example, water – it is likely to be affected by changes in the quality, availability and pricing of that resource;
- (b) when the undertaking's activities result in negative impacts on, e.g., local communities, the activities could become subject to stricter government regulation, and/or the impact could trigger consequences of a reputational nature. These have negative effects on the undertaking's brand, and higher recruitment costs might arise; and
- (c) when the undertaking's business partners face material **sustainability-related risks**, the undertaking could be exposed to related consequences as well.

AR.16 The identification of **risks** that affect, or could reasonably be expected to affect, the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term is the starting point for the **financial materiality** assessment. In this context, the undertaking shall consider:

- (a) the existence of **dependencies** from natural and social resources as sources of **financial effects** (see paragraph 53 of this section) and
- (b) their classification as sources of risks (contributing to negative deviation in future expected cash inflows, or increase in deviation in future expected cash outflows and/or negative deviation from an expected change in capitals not recognised in the financial statements).

AR.17 Once the undertaking has identified its **risks**, it shall determine which of them are material for reporting purposes. This shall be based on a combination of (i) the likelihood of occurrence and (ii) the potential size of **financial effects** determined on the basis of appropriate thresholds. In this step, it shall consider the contribution of those risks to financial effects in the short-, medium- and long-term based on

- (a) **scenarios/forecasts** that are deemed likely to materialise; and

- (b) potential financial effects related to **sustainability matters** deriving either from situations with a below the more-likely-than-not threshold or assets/liabilities not (yet) reflected in financial statements. This includes:
- i. potential situations that, following the occurrence of future events, may affect cash flow generation potential;
 - ii. capitals that are not recognised as assets from an accounting and financial reporting perspective but that have a significant influence on financial performance, such as natural, intellectual (organisational), human, social and relationship capitals; and
 - iii. possible future events that may influence the evolution of such capitals.

Sustainability matters to be included in the materiality assessment

AR.18 When performing its **materiality** assessment, the undertaking shall consider the following list of **sustainability matters** covered in the topical sections of this [draft] Standard. If, as a result of the undertaking's materiality assessment (see Section 2 Disclosure Requirement 9 (*IR-1*)), a given sustainability matter in this list is assessed to be material, the undertaking shall report on it according to the corresponding Disclosure Requirements of the relevant topical sections. Using this list is not a substitute for the process of determining material matters. This list is only meant to serve as a tool to support the undertaking's materiality assessment. The undertaking still needs to consider its own specific circumstances when determining its material matters. Where necessary according to paragraph 14, the undertaking shall also develop entity-specific disclosures on material **impacts** and **risks** not covered in this [draft] Standard.

ESRS LSME ED

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
	Topic	Sub-topic	Sub-subtopics
[draft] ESRS E1	Climate change ⁹	<ul style="list-style-type: none"> • Climate change adaptation • Climate change mitigation • Energy 	
[draft] ESRS E2	Pollution	<ul style="list-style-type: none"> • Pollution of air • Pollution of water • Pollution of soil • Pollution of living organisms and food resources • Substances of concern • Substances of very high concern 	
[draft] ESRS E3	Water and marine resources	<ul style="list-style-type: none"> • Water • Marine resources 	<ul style="list-style-type: none"> • Water consumption • Water withdrawals • Water discharges • Water discharges in the oceans • Extraction and use of marine resources
[draft] ESRS E4	Biodiversity and ecosystems	<ul style="list-style-type: none"> • Direct impact drivers of biodiversity loss 	<ul style="list-style-type: none"> • Climate Change • Land-use change, fresh water-use change and sea-use change • Direct exploitation • Invasive alien species • Pollution • Others
		<ul style="list-style-type: none"> • Impacts on the state of species 	<p>Examples:</p> <ul style="list-style-type: none"> • Species population size • Species global extinction risk
		<ul style="list-style-type: none"> • Impacts on the extent and condition of ecosystems 	<p>Examples:</p> <ul style="list-style-type: none"> • Land degradation • Desertification • Soil sealing
		<ul style="list-style-type: none"> • Impacts and dependencies on ecosystem services 	
[draft] ESRS E5	Circular economy	<ul style="list-style-type: none"> • Resources inflows, including resource use • Resource outflows related to products and services • Waste 	
[draft] ESRS S1	Own workforce	<ul style="list-style-type: none"> • Working conditions 	<ul style="list-style-type: none"> • Secure employment • Working time • Adequate wages • Social dialogue

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
			<ul style="list-style-type: none"> • Freedom of association, the existence of works councils and the information, consultation and participation rights of workers • Collective bargaining, including rate of workers covered by collective agreements • Work-life balance • Health and safety
		<ul style="list-style-type: none"> • Equal treatment and opportunities for all 	<ul style="list-style-type: none"> • Gender equality and equal pay for work of equal value • Training and skills development • Employment and inclusion of persons with disabilities • Measures against violence and harassment in the workplace • Diversity
		<ul style="list-style-type: none"> • Other work-related rights 	<ul style="list-style-type: none"> • Child labour • Forced labour • Adequate housing • Privacy
[draft] ESRS S2	Workers in the value chain	<ul style="list-style-type: none"> • Working conditions 	<ul style="list-style-type: none"> • Secure employment • Working time • Adequate wages • Social dialogue • Freedom of association, including the existence of work councils • Collective bargaining • Work-life balance • Health and safety
		<ul style="list-style-type: none"> • Equal treatment and opportunities for all 	<ul style="list-style-type: none"> • Gender equality and equal pay for work of equal value • Training and skills development • The employment and inclusion of persons with disabilities • Measures against violence and harassment in the workplace

⁹ The undertaking shall include all the information prescribed in ESRS E1 regardless of the outcome of the materiality assessment.

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
			<ul style="list-style-type: none"> Diversity
		<ul style="list-style-type: none"> Other work-related rights 	<ul style="list-style-type: none"> Child labour Forced labour Adequate housing Water and sanitation Privacy
[draft] ESRS S3	Affected communities	<ul style="list-style-type: none"> Communities' economic, social and cultural rights 	<ul style="list-style-type: none"> Adequate housing Adequate food Water and sanitation Land-related impacts Security-related impacts
		<ul style="list-style-type: none"> Communities' civil and political rights 	<ul style="list-style-type: none"> Freedom of expression Freedom of assembly Impacts on human rights advocates
		<ul style="list-style-type: none"> Rights of indigenous communities 	<ul style="list-style-type: none"> Free, prior and informed consent Self-determination Cultural rights
[draft] ESRS S4	Consumers and end-users	<ul style="list-style-type: none"> Information-related impacts for consumers and/or end-users 	<ul style="list-style-type: none"> Privacy Freedom of expression Access to (quality) information
		<ul style="list-style-type: none"> Personal safety of consumers and/or end-users 	<ul style="list-style-type: none"> Health and safety Security of a person Protection of children
		<ul style="list-style-type: none"> Social inclusion of consumers and/or end-users 	<ul style="list-style-type: none"> Non-discrimination Access to products and services Responsible marketing practices
[draft] ESRS G1	Business conduct	<ul style="list-style-type: none"> Corporate culture Protection of whistle-blowers Animal welfare Political engagement Management of relationships with suppliers including payment practices 	
		<ul style="list-style-type: none"> Corruption and bribery 	<ul style="list-style-type: none"> Prevention and detection, including training Incidents

4.1 Application requirements – Reporting undertaking and value chain

AR.19 To illustrate the approach included in paragraph 61 of this section, consider an undertaking, P, that produces chairs with wood sourced from another undertaking that is classified as an associate (A) for financial reporting. P holds an equity share in A of 30%. P buys 10 tons of wood from A to produce its chairs. P will treat A in the same way as any

other supplier when considering the impacts connected with the wood purchased from A. Therefore, in this case, the impacts related to the 10 tons of wood purchased rather than estimating its impacts by using its equity share in A.

4.2 Application requirements – Estimation using sector averages and proxies

- AR.20 When, as required by paragraph 58 of this Section, collecting **value chain** information is not possible with reasonable effort, the undertaking shall estimate the information to be reported using all reasonable and supportable information. This includes, but is not limited to, internal and external information such as data from indirect sources, sector-average data, sample analyses, market and peer groups data, other proxies or spend-based data.
- AR.21 When the LSME has a large number of actors in its upstream or downstream **value chain**, it may not be able without unreasonable effort to collect direct data from them when such data are either indispensable input to the materiality assessment (see paragraph 41 of this Section) or information necessary in order to prepare the LSME's value chain disclosure for ESRS reporting (see paragraph 64 of this Section). In this case, the LSME will use proxies or sector data under the provisions of *BP-2 – Disclosures in relation to specific circumstances*.
- AR.22 Subject to the provisions set out in the Disclosure Requirements of this [draft] Standard, the LSME is expected to provide explanations of its efforts if such efforts are in place (and of the extent of the effectiveness of such efforts) to influence the practices of the actors in its upstream and downstream **value chain** (such as developing products that are maximally recyclable and proposing to **consumers** or **end-users**) and to contribute to the elaboration of proxies or sector data.
- AR.23 When extending the information about the reporting undertaking to include **value chain** information in accordance with paragraph 58 the elements of the value chain with material **impacts** and risks are reported on. For instance, based on the materiality assessment, the undertaking may consider the matters working conditions and **affected communities** to be material for a group of farmers, while the CO2 **emissions** may be considered material in other parts of the value chain.

Appendix B: Qualitative characteristics of information

This appendix is an integral part of this Section of this [draft] Standard and has the same authority as the other parts of the [draft] Standard.

This appendix states the qualitative characteristics that the information presented in **sustainability statement** prepared according to this [draft] Standard shall meet.

Relevance

- QC1. Sustainability information is relevant when it may make a difference in the decisions of users under a **double materiality** approach (see chapter 3 of this [draft] Standard).
- QC2. Information may make a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Sustainability information may impact decisions of users if it has predictive value, confirmatory value or both. Information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Sustainability information does not need to be a prediction or forecast to have predictive value, but rather has predictive value if employed by users in making their own predictions.
- QC3. Information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.
- QC4. Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, as assessed in the context of the undertaking's sustainability reporting (see chapter 3 of this Section).

Faithful representation

- QC5. To be useful, the information must not only represent relevant phenomena, it must also faithfully represent the substance of the phenomena that it purports to represent. Faithful representation requires information to be (i) complete, (ii) neutral and (iii) free from error.
- QC6. A complete depiction of an **impact**, a risk (or an **opportunity** on a voluntary basis) includes all material information necessary for the users to understand that **impact**, **risk** or **opportunity**. This includes how the undertaking has adapted its strategy, risk management and governance in response to that **impact**, risk (or **opportunity** on a voluntary basis), as well as the **metrics** identified to set **targets** and measure performance.
- QC7. A neutral depiction is without bias in its selection or disclosure of information. Information is neutral if it is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that the users will receive that information favourably or unfavourably. Both negative and positive material impacts from an **impact materiality** perspective as well as **material risks** and **opportunities** from a **financial materiality** perspective shall receive equal attention. It shall be balanced, so as to cover favourable/positive and unfavourable/negative aspects. Any aspirational sustainability information, for example **targets** or plans shall cover both aspirations and factors that could prevent the undertaking from achieving these aspirations in order to have a neutral depiction.
- QC8. Neutrality is supported by the exercise of prudence which is the exercise of caution when making judgements under conditions of uncertainty. Information shall not be netted or compensated to be neutral. The exercise of prudence means that opportunities are not overstated and risks are not understated. Equally, the exercise of prudence does not allow for the overstatement of risks (or the understatement of opportunities disclosed on a voluntary basis). The undertaking may present net information, in addition to gross value, if such presentation does not obscure relevant information and includes a clear explanation about the effects of the netting and the reasons for the netting.
- QC9. Information can be accurate without being perfectly precise in all respects. Accurate information implies that the undertaking has implemented adequate processes and internal controls to avoid material errors or material misstatements. As such, estimates shall be presented with a clear emphasis on their possible limitations and associated uncertainty (see chapter 6.2 of this Section). The amount of precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses. For example, accuracy requires that:
- a) factual information is free from material error;
 - b) descriptions are precise;
 - c) estimates, approximations and forecasts are clearly identified as such;
 - d) no material errors have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable;
 - e) assertions are reasonable and based on information of sufficient quality and quantity; and
 - f) information about judgements about the future faithfully reflects both those judgements and the information on which they are based.

Comparability

- QC10. Sustainability information is comparable when it can be compared with information provided by the undertaking in previous periods and, can be compared with information provided by other undertakings, in particular those with similar activities or operating within the same industry. A point of reference for comparison can be a target, a baseline,

an industry benchmark, comparable information from either other undertakings or from an internationally recognised organisation, etc.

- QC11. Consistency is related to, but is not the same as, comparability. Consistency refers to the use of the same approaches or methods for the same sustainability matter, from period to period by the undertaking and other undertakings. Consistency helps to achieve the goal of comparability.
- QC12. Comparability is not uniformity. For information to be comparable, like components shall look alike and different components shall look different. Comparability of sustainability information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

Verifiability

- QC13. Verifiability helps to give users confidence that information is complete, neutral and accurate. Sustainability information is verifiable if it is possible to corroborate either such information itself or the inputs used to derive it.
- QC14. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Sustainability information shall be provided in a way that enhances their verifiability, for example:
- (c) including information that can be corroborated by comparing it with other information available to users about the undertaking's business, about other businesses or about the external environment;
 - (d) providing information about inputs and methods of calculation used to produce estimates or approximations; and
 - (e) providing information reviewed and agreed by the **administrative, management and supervisory bodies** or their committees.
- QC15. Some sustainability information will be in the form of explanations or forward-looking information. Those disclosures can be supportable by faithfully representing on a factual basis for example the strategies, plans and risk analyses of the undertaking. To help users decide whether to use such information, the undertaking shall describe the underlying assumptions and methods of producing the information, as well as other factors that provide evidence that verify that it reflects the actual plans or decisions made by the undertaking.

Understandability

- QC16. Sustainability information is understandable when it is clear, and concise. Understandable information enables any reasonable knowledgeable user to readily comprehend the information being communicated.
- QC17. For sustainability disclosures to be concise, they need to (a) avoid generic "boilerplate" information, which is not specific to the undertaking; (b) avoid unnecessary duplication of information, including information also provided in financial statements; and (c) use clear language and well-structured sentences and paragraphs. Concise disclosures shall only include material information. Complementary information presented pursuant to paragraph shall¹⁰⁷ be provided in a way that avoids obscuring material information.
- QC18. Clarity might be enhanced by distinguishing information about developments in the reporting period from "standing" information that remains relatively unchanged, from one period to the next. This can be done for example, by separately describing features of the undertaking's sustainability-related governance and risk management processes that have changed since the previous reporting period compared to those that remain unchanged.
- QC19. The completeness, clarity and comparability of sustainability disclosures all rely on information being presented as a coherent whole. For sustainability disclosures to be coherent, they shall be presented in a way that explains the context and the relationships

between the related information. Coherence also requires the undertaking to provide information in a way that allows users to relate information about its **sustainability-related impacts, risks** and **opportunities** (on a voluntary basis) to information in the undertaking's financial statements.

- QC20. If **sustainability-related risks** and **opportunities** (on a voluntary basis) discussed in the financial statements have implications for sustainability reporting, the undertaking shall include in the **sustainability statement** the information necessary for users to assess those implications and present appropriate links to the financial statements (see chapter 8 of this Section). The level of information, granularity and technicality shall be aligned with the needs and expectations of users. Abbreviations shall be avoided and the units of measure shall be defined and disclosed.

Appendix C: List of phased-in Disclosure Requirements

This appendix is an integral part of Section 1 General requirements of this [draft] Standard and has the same authority as the other parts of the Standard. It should be read in conjunction with Section 2 of this [draft] Standard paragraph 15 “Use of phase-In provisions in accordance with Appendix C of Section 1”.

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
Section 2	DR-5	Strategy, business model and value chain	The undertaking shall report the information prescribed by Section 2 Disclosure Requirement 5 (<i>SBM-1</i>) paragraph 20(b) (list of additional significant ESRS sectors) starting from the application date specified in a Commission Delegated Act to be adopted pursuant to article 29c, of Directive 2013/34/EU.
Section 2	DR-7	Material impacts, risks and opportunities and their interaction with strategy and business model	The undertaking may omit the information prescribed by Section 2 Disclosure Requirement 7 (<i>SBM-3</i>) paragraph 37(e) (anticipated financial effects) for the first year of preparation of its sustainability statement. The undertaking may comply with Section 2 Disclosure Requirement 7 (<i>SBM-3</i>) paragraph 37(e) by reporting only qualitative disclosures for the first three years of preparation of its sustainability statement if it is not possible with reasonable effort to prepare quantitative disclosures.
Section 4	E1-1	Energy consumption and mix (energy intensity based on net revenue)	The undertaking may omit the reconciliation with the relevant line item or notes in the financial statements of the net revenue amount from activities in high climate impact sectors information, required in paragraph 10 of this Disclosure Requirement, for the first year of preparation of its sustainability statement.
Section 4	E1-2	Gross Scopes 1, 2, 3 and total GHG emissions	Undertakings or groups not exceeding on their balance sheet dates the average number of 50 employees during the financial year (on a consolidated basis where applicable) may omit the datapoints on Scope 3 emissions and total GHG emissions for the first year of preparation of their sustainability statement.

ESRS LSME ED

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
Section 4	E1-2	Gross Scopes 1, 2, 3 and total GHG emissions (GHG intensity based on net revenue)	The undertaking may omit the reconciliation with the relevant line item of financial statements required in paragraph 21 of this Disclosure Requirement for the first year of preparation of its sustainability statement.
Section 4	E1-4	Anticipated financial effects from material physical and transition risks and potential climate-related opportunities	The undertaking may omit the information prescribed by E1-4 for the first year of preparation of its sustainability statement. The undertaking may comply with E1-4 by reporting only qualitative disclosures for the first three years of preparation of its sustainability statement if it is not possible with reasonable effort to prepare quantitative disclosures.
Section 3 and 4	All disclosure requirements related to biodiversity and ecosystems	All disclosure requirements related to biodiversity and ecosystems	Undertakings or groups not exceeding on their balance sheet dates the average number of 50 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements of Section 3 and 4 related to All disclosure requirements related to Biodiversity and ecosystems for the first two years of preparation of their sustainability statement.
Section 4	E6	Anticipated financial effects from material environmental-related impacts and risks other than climate	The undertaking may omit the information prescribed by E6 for the first year of preparation of its sustainability statement. The undertaking may comply with E6 by reporting only qualitative disclosures for the first three years of preparation of its sustainability statement.
Section 5	All disclosure requirements related to own workforce	All disclosure requirements related to own workforce	Undertakings or groups not exceeding on their balance sheet dates the average number of 50 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements related to own workforce for the first year of preparation of their sustainability statement.

ESRS LSME ED

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
Section 5	S1-2	Characteristics of non-employee workers in the undertaking's own workforce	The undertaking may omit reporting for all datapoints in this Disclosure Requirement for the first year of preparation of its sustainability statement.
Section 5	S1-3	Collective bargaining coverage	The undertaking may omit this Disclosure Requirement with regard to its own employees in non-EEA countries for the first year of preparation of its sustainability statement.
Section 5	S1-5	Social protection	The undertaking may omit the information required under this Disclosure Requirement for the first year of preparation of its sustainability statement.
Section 5	S1-6	Training metrics	The undertaking may omit the information required under this Disclosure Requirement for the first year of preparation of its sustainability statement.
Section 5	S1-6	Training metrics	The undertaking may omit the breakdown by gender required under this Disclosure Requirement for the first two years of preparation of its sustainability statement.
Section 5	S1-7	Health and safety metrics	The undertaking may omit the data points on cases of work-related ill-health issues and on the number of days lost to injuries, accidents, fatalities and work-related health issues for the first year of preparation of its sustainability statement.
Section 5	S1-7	Health and safety metrics	The undertaking may omit reporting on non-employees for the first year of preparation of its sustainability statement.
Section 5	S1-9	Incidents and severe human rights impacts	The undertaking may omit the data points on reconciliation of monetary amounts required in paragraphs 45(b) and 46(b) of this Disclosure Requirement for the first year of preparation of its sustainability statement.
Section 5	S1-10	Diversity metrics	The undertaking may omit the data point on percentage of employees with disabilities required in paragraph 50(b) of this Disclosure Requirement for the first year of preparation of its sustainability statement.

LSME ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
Sections 2 and 3	All disclosure requirements	All disclosure requirements	Undertakings or groups not exceeding on their balance sheet dates the average number of 50 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements and application requirements related to workers in the value chain, affected communities and consumers and end-users for the first two years of preparation of their sustainability statement.

Appendix D: Structure of ESRS sustainability statements

This appendix is an integral part of this [draft] LSME ESRS and has the same authority as the other parts of the Standard with respect to reporting in the four parts outlined in paragraph 115.

Part of the management report	LSME ESRS codification	Title
1. General information	Section 2	<i>General disclosures</i> , including information provided under the Application Requirements of topical ESRS listed in ESRS 2 Appendix C.
2. Environmental information	<i>Not applicable</i>	<i>Disclosures pursuant to Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation)</i>
	Sections 2, 3 and 4	<i>Climate change</i>
		<i>Pollution</i>
		<i>Water and marine resources</i>
		<i>Biodiversity and ecosystems</i>
		<i>Resource use and circular economy</i>
3. Social information	Sections 2, 3 and 5	<i>Own workforce</i>
		<i>Workers in the value chain</i>
		<i>Affected communities</i>

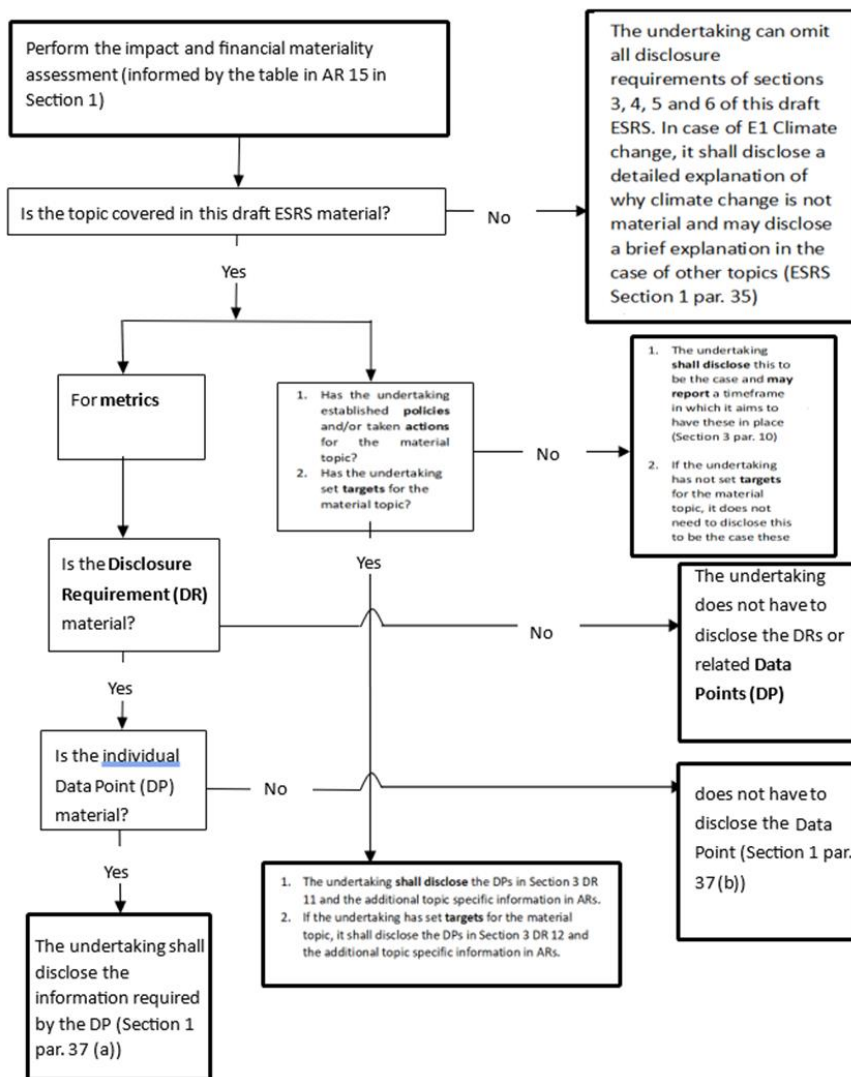
ESRS LSME ED

Part of the management report	LSME ESRS codification	Title
		<i>Consumers and end-users</i>
4. Governance information	Sections 2, 3 and 6	<i>Business conduct</i>

Appendix E: Flowchart for determining disclosures under LSME ESRS

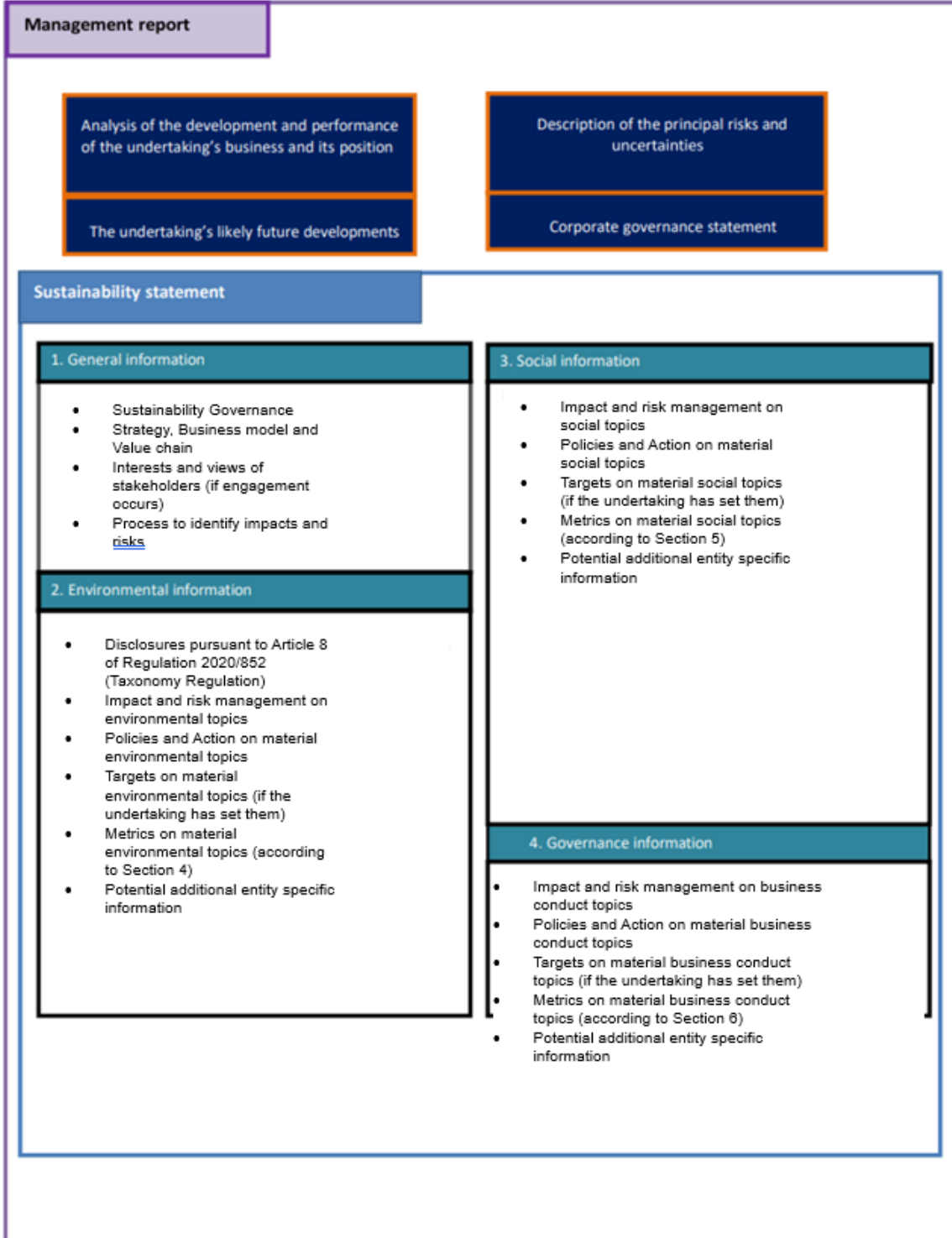
Materiality assessment is the starting point for sustainability reporting under this [draft] Standard. This appendix provides a non-binding illustration of the impact and financial materiality assessment outlined in chapter 3 of this Section. Disclosure Requirement 9 (IR-1) *Description of the processes to identify and assess material impacts and risks* in section 2 of this [draft] Standard includes general disclosure requirements (DR) about the undertaking’s process for identifying impacts and risks and assessing their materiality. Disclosure Requirement 7 (SMB-3) *Material impacts and risks and their interaction with strategy and business model* of Section 2 provides general disclosures requirements on the material impact, risks and opportunities resulting from the undertaking’s materiality assessment. The undertaking can omit all disclosure requirements in a topical standard 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 disclose a detailed explanation in the case of E1 climate change (Disclosure Requirement 10 (IR-2) *Disclosure Requirements in ESRS LSME covered by the undertaking’s sustainability statement* in Section 2). This [draft] Standard sets disclosure requirements, not behavioural requirements. Disclosure requirements in relation to action plans, targets, policies, scenario analysis and transition plans are proportionate because they are contingent on the undertaking having them in place, which may depend on the size, capacity, resources, and skills of the undertaking.

Note: The flowchart below does not contemplate the case in which the undertaking assesses a sustainability matter as material but it is not covered by this [draft] Standard, in which case the undertaking shall make additional entity specific disclosures (AR 1 to AR 6 in this Section).



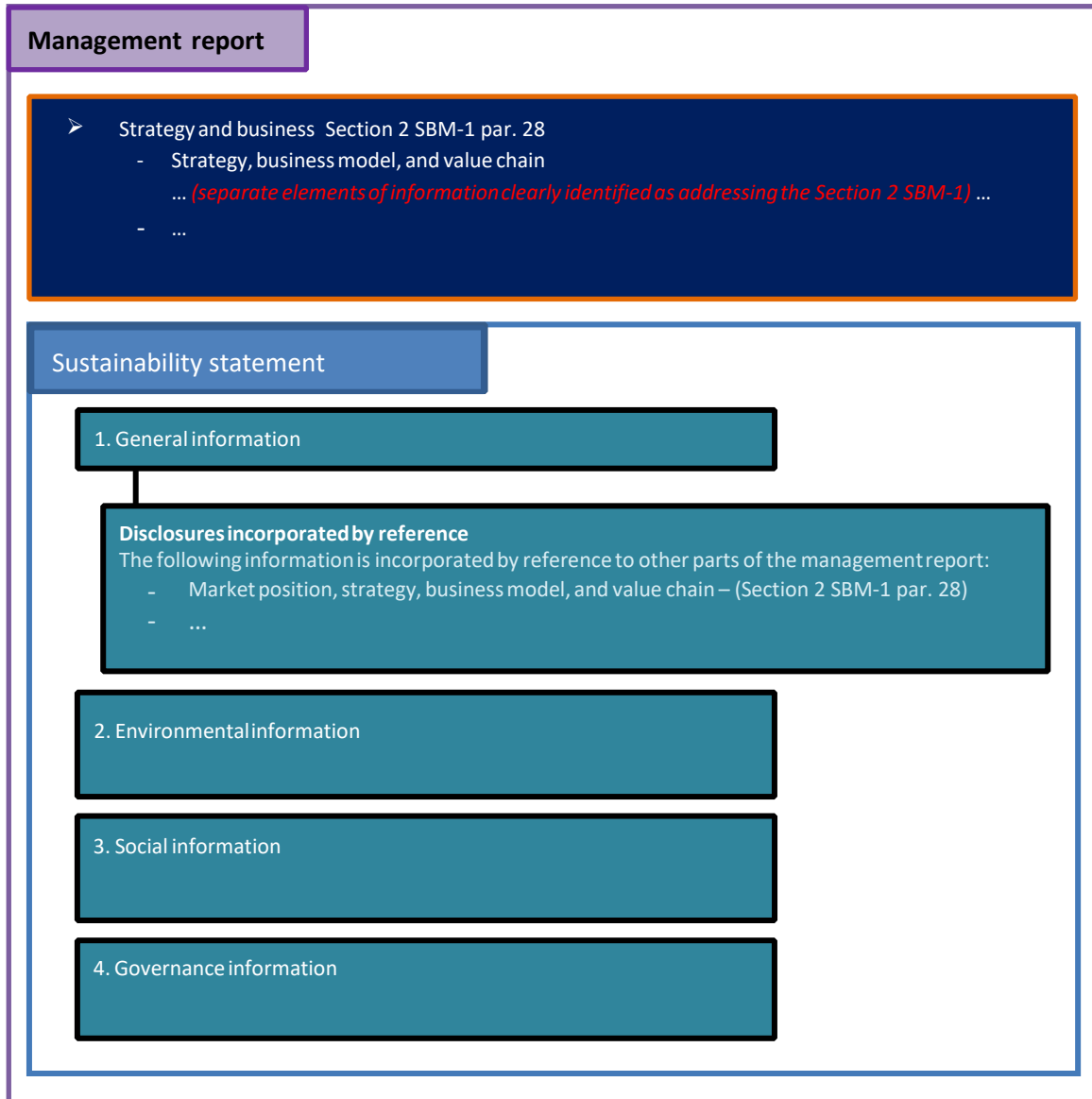
Appendix F: Example of structure of ESRS sustainability statements

This appendix complements Section 1 of this [draft] Standard. It provides a non-binding illustration of the structure of the sustainability statement outlined in chapter 7.2 of this Section. In this illustration, the undertaking has concluded that biodiversity and ecosystems, pollution and affected communities are not material.



Appendix G: Example of incorporation by reference

This appendix complements Section 1 of this [draft] Standard. It provides non-binding illustrations of incorporation by reference of another section of the management report into the sustainability statement as outlined in chapter 8.1 of this Section.



Appendix H: List of Disclosure/Application Requirements in Section 2

Disclosure/Application Requirements	To be disclosed irrespective of materiality assessment	To be disclosed 'if you have to'	To be disclosed on a voluntary basis
Section 2 - Disclosure Requirement 1 (BP-1) – General basis for preparation of the sustainability statements	x		
Section 2 - Disclosure Requirement 2 (BP-2) – Disclosures in relation to specific circumstances	x		
Section 2 - Disclosure Requirement 3 (GOV-1) – The role of the administrative, management and supervisory bodies	x		
Section 2 - Disclosure Requirement 4 (GOV-2) - Due diligence		x	
Section 2 - Disclosure Requirement 5 (SBM-1) – Strategy, business model and value chain	x		
Section 2 - Disclosure Requirement 6 (SBM-2) – Interests and views of stakeholders		x	
Section 2 - Disclosure Requirement 7 (SMB-3) - Material impacts and risks and their interaction with strategy and business model	x		
Section 2 - Voluntary Disclosure 8 (SBM-4) – Material opportunities			x
Section 2 - Disclosure Requirement 9 (IR-1) - Processes to identify and assess material impacts and risks	x		
Section 2 - Disclosure Requirement 10 (IR-2) – Topics covered by the undertaking's sustainability statement	x		

ESRS LSME ED – SECTION 2 GENERAL DISCLOSURES

DISCLAIMER

Section 2 *General disclosures* is set out in paragraphs 1–57. The following appendices of Section 2 have the same authority as the main body of the [draft] Standard:

- *Appendix A: Application Requirements,*
- *Appendix B: List of datapoints in cross-cutting and topical sections that derive from other EU legislation*



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LSME General Disclosures

Objective

1. This Section covers governance and strategy areas defined in Section 1 *General requirements* of this [draft] Standard, and it is applicable in conjunction with Section 3 *Policies, actions and targets* and the topical Sections of this [draft] Standard.

1. Basis for preparation

Disclosure Requirement 1 (BP-1) – General basis for preparation of the sustainability statements

2. The undertaking shall disclose the general basis for preparation of its sustainability statement.
3. The objective of this Disclosure Requirement is to provide an understanding of how the undertaking prepares its individual ***sustainability statement***, under Art. 19a (6) of the Directive 2013/34/EU of the European Parliament and of the Council, including the upstream and downstream ***value chain*** information and, where relevant, whether the undertaking has used any of the options for omitting information referred to in point (c) in the following paragraph.
4. The undertaking shall disclose the following information:
 - (a) the extent to which the ***sustainability statement*** covers the undertaking's upstream and downstream ***value chain***, including the extent of coverage of information about its subsidiaries, based on the results of the undertaking's ***materiality*** assessment, specifying, where applicable, the related reporting scope (see [draft] Section 1 chapter 4.1 *Reporting undertaking and value chain*);
 - (b) whether the undertaking has used the option to omit a specific piece of information corresponding to intellectual property, know-how or the results of innovation (see [draft] Section 1 chapter 6.6 *Classified and sensitive information, and information on intellectual property, know-how or results of innovation*; and
 - (c) whether the undertaking has used the exemption to not disclose information related to impending developments or matters in the course of negotiation (see [draft] Section 1 chapter 6.7 *Matters in course of negotiation*).

Disclosure Requirement 2 (BP-2) – Disclosures in relation to specific circumstances

5. The undertaking shall provide disclosures in relation to specific circumstances.
6. The objective of this Disclosure Requirement is to provide an understanding of the effect of these specific circumstances on the preparation of the individual *sustainability statement*.
7. The undertaking may report this information alongside the disclosures to which they refer.

Time horizons

8. When it has deviated from the medium- or long-term time horizons defined in [draft] Section 1 chapter 5.4 *Definition of short-, medium- and long-term for reporting purposes*, the undertaking shall describe:
 - (a) its definitions of medium- or long-term time horizons and
 - (b) the reasons for applying those definitions.

Value chain estimation

9. When **metrics** include upstream and/or downstream **value chain** data, including data of the subsidiaries estimated using indirect sources such as sector-average data or other proxies, the undertaking shall:
 - (a) identify the metrics and
 - (b) describe the basis for preparation, including how data of the subsidiaries have been considered.

Sources of estimation and outcome uncertainty

10. In accordance with [draft] Section 1 chapter 6.2 *Sources of estimation and outcome uncertainty*, the undertaking shall identify the quantitative **metrics** and monetary amounts it has disclosed that are subject to a high level of measurement uncertainty and disclose information to help **users** understand those uncertainties (such as through the description of the sources of uncertainties and the key assumptions made in the measurement). When disclosing forward-looking information, the undertaking may indicate that it considers such information to be uncertain.

Changes in preparation or presentation of sustainability information

11. When changes in the preparation and presentation of sustainability information occur compared to the previous reporting period(s), (see [draft] Section 1 chapter 6.4 *Changes in preparation or presentation in sustainability information*), the undertaking shall:
 - (a) explain the changes;
 - (b) where possible with reasonable effort, provide restated comparative figures; and
 - (c) where possible with reasonable effort, disclose the difference between the figure disclosed in the preceding period and the revised comparative figure.

Reporting errors in prior periods

12. When prior period material errors exist (see [draft] Section 1 chapter 6.5 *Reporting errors in prior periods*), the undertaking shall disclose:
 - (a) the nature of the prior period material error;
 - (b) where possible with reasonable effort, the correction for each prior period included in the **sustainability statement**; and
 - (c) if correction of the error is not possible with reasonable effort, the circumstances that led to the existence of that condition.

Disclosures stemming from local legislations or generally accepted sustainability reporting pronouncements

13. When the undertaking includes in its individual **sustainability statement** information stemming from other legislation requiring the undertaking to disclose sustainability information or from generally accepted sustainability reporting standards and frameworks (see [draft] Section 1 chapter 7.2 *Content and structure of the sustainability statements*), it shall disclose this fact in addition to the information prescribed by the [draft] Standard. In case of partial application of other reporting standards or frameworks, the undertaking shall provide a precise reference to the paragraphs of the standard or framework applied.

Incorporation by reference

14. When the undertaking incorporates information by reference (see [draft] Section 1 chapter 8.1 *Incorporation by reference*), it shall disclose a list of the disclosure requirements of the [draft] Standard or the specific datapoints mandated by a Disclosure Requirement that have been incorporated by reference.

Use of phase-in provisions in accordance with Appendix C of Section 1

15. If an undertaking decides to apply phased-in provisions according to Section 1 *Appendix C* in relation to the topics of biodiversity, **own workforce**, **value chain** workers, **affected communities**, consumers and **end-users**, it shall nevertheless disclose whether the respective sustainability topics have been assessed to be material as a result of the undertaking's **materiality** assessment. In addition, if one or more of these topics has been assessed to be material, for each material topic the undertaking shall:
- (a) disclose the list of matters (i.e., topic, subtopic or sub-subtopic) in AR 18 Section 1 *Appendix A* that are assessed to be material and how the undertaking's **business model** and strategy take account of the **impacts** of the undertaking related to those matters. The undertaking may identify the matter at the level of topic, subtopic or sub-subtopic;
 - (b) where the undertaking has set sustainability-related **targets** in relation to the matters in question, it shall disclose the progress it has made towards achieving those targets and whether its targets related to **biodiversity** and **ecosystems** are based on conclusive scientific evidence;
 - (c) briefly describe its **policies** in relation to the matters in question;
 - (d) briefly describe **actions** it has taken to identify, monitor, prevent, mitigate, remediate or bring an end to actual or potential adverse impacts related to the matters in question and the result of such actions; and
 - (e) disclose **metrics** relevant to the matters in question.

2. Governance

16. The objective of this chapter is to set disclosure requirements that provide an understanding of the governance processes, controls and procedures put in place to monitor, manage and oversee **sustainability matters**.

Disclosure Requirement 3 (GOV-1) – The role of the administrative, management and supervisory bodies

17. The undertaking shall disclose the composition of the administrative, management and supervisory bodies, their roles and responsibilities and their access to expertise and skills with regard to sustainability matters.
18. The objective of this Disclosure Requirement is to provide an understanding of:
 - (a) the composition and diversity of the **administrative, management and supervisory bodies**;
 - (b) the roles and responsibilities of the **administrative, management and supervisory bodies** in exercising oversight of the process for managing material **impacts** and **risks**, including management's role in these processes; and
 - (c) the expertise of its administrative, management and supervisory bodies on **sustainability matters** or access to such expertise and skills.
19. The undertaking shall describe the composition and diversity of the members of its **administrative, management and supervisory bodies**, including:
 - (a) if applicable, the number of executive and non-executive members, the representation of **employees** and other workers, the percentage of **independent¹ board members**; and
 - (b) the percentage by gender and other aspects of diversity that the undertaking considers. The board's gender diversity² shall be calculated as an average ratio of female to male board members.
20. The undertaking shall disclose a description of management's role in the governance processes, controls and procedures used to monitor, manage and oversee **impacts** and **risks**, including:
 - (a) whether a governance body (**administrative, management or supervisory bodies**) or an individual(s) in the undertaking organisation (such as at management level or another type of **employee**) is responsible for oversight of sustainability impacts and risks;
 - (b) if applicable, a brief description of the process for oversight of sustainability impacts and risks;
 - (c) whether there are dedicated controls and procedures applied to the management of impacts and risks and, if so, a brief description of them, including how they are integrated with other internal functions;

¹ This information supports the needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator 'Weighted average percentage of board members who are independent' in section 1 of Annex 2.

² This information supports the needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts set out by indicator #13 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments (respectively, 'Board gender diversity') and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator 'Weighted average ratio of female to male board members' in Section 1 and 2 of Annex 2.

- (d) a brief description of the process used to inform the administrative, management and supervisory bodies, including their relevant committees, about (i) material impacts and risks, (ii) the policies, actions, and targets adopted to address them and (iii) the respective results and **metrics** in place if such process is in place. This description may include information on how frequently **sustainability matters** are communicated to those bodies and the person in charge of this process; and
- (e) if applicable, a brief description of how the administrative, management and supervisory bodies determine whether appropriate skills and expertise are available or whether they will be developed to oversee **sustainability matters**.

Disclosure Requirement 4 (GOV-2) – Due diligence

- 21. The undertaking shall disclose whether it has adopted a due diligence process with regard to sustainability matters.
- 22. The objective of this Disclosure Requirement is to facilitate an understanding of the undertaking's due diligence process(es) with regard to **sustainability matters**.
- 23. The undertaking shall disclose whether it has adopted due diligence process(es) or not.³
- 24. If the undertaking has implemented such processes, it shall briefly describe how and where the due diligence process(es) are reflected in its **sustainability statements**.

3. Strategy

- 25. This chapter sets out disclosure requirements that facilitate an understanding of:
 - (a) the elements of the undertaking's strategy that relate to or affect **sustainability matters**, its **business model(s)** and its **value chain** and
 - (b) the outcome of the undertaking's assessment of material **impacts** and **risks**, including how it informs its strategy and business model(s).

Disclosure Requirement 5 (SBM-1) – Strategy, business model and value chain

- 26. **The undertaking shall disclose the elements of its strategy that relate to or impact sustainability matters, its business model and its value chain.**
- 27. The objective of this Disclosure Requirement is to describe the key elements of the undertaking's general strategy that relate to or affect **sustainability matters**, and the key elements of the undertaking's **business model** and **value chain**, in order to provide an understanding of the undertaking's exposure to **impacts** and **risks** and where they originate.
- 28. The undertaking shall disclose the following information about the key elements of its general strategy that relate to or affect **sustainability matters**:

³ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #10 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (respectively, 'Lack of due diligence').

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- (a) a description of:
- i. significant groups of products and/or services offered, including changes in the reporting period (new or removed products and/or services);
 - ii. significant markets and/or customer groups served, including changes in the reporting period (new or removed markets and/or customer groups);
 - iii. main countries of operation of the parent undertaking and of the subsidiaries that are connected with material **impacts** or **risks**; and
 - iv. where applicable and material, products and services that are banned in certain markets.
- (b) the list of significant ESRS sectors where the company or its subsidiaries is or may be connected to material impacts. The list of sectors shall be consistent with the way sectors have been considered by the undertaking when performing its **materiality** assessment (which, as part of the **value chain**, also includes its subsidiaries) and with the way it discloses material sector information;
- (c) where applicable, a statement indicating, together with the related revenues, whether the undertaking is active in:
- i. the **fossil fuel** (coal, oil and gas) sector⁴, i.e., whether it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council,⁵ including a disaggregation of revenues derived from coal, from oil and from gas, as well as the revenues derived from Taxonomy-aligned economic activities related to fossil gas as required under Article 8(7)(a) of Commission Delegated Regulation 2021/2178;⁶
 - ii. chemicals production,⁷ i.e., whether its activities fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006;

⁴ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts set out by indicator #4 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments (respectively, 'Exposure to companies active in the fossil fuel sector').

⁵ Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council (OJ L 328, 21.12.2018, p. 1).

⁶ Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation (OJ L 443, 10.12.2021, p. 9).

⁷ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts set out by indicator #9 in Table 2 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments (respectively, 'Investments in companies producing chemicals').

- iii. controversial weapons⁸ (anti-personnel mines, cluster munitions, chemical weapons and biological weapons); and/or
 - iv. the cultivation and production of tobacco⁹; and
- (d) its sustainability-related goals, if applicable, in terms of significant groups of products and services, customer categories, geographical areas and relationships with **stakeholders**.
29. The undertaking shall disclose a description of its **business model** and **value chain**, including:
- (a) its inputs and its approach to gathering, developing and securing those inputs;
 - (b) its outputs and outcomes in terms of current and expected benefits for customers, investors and other **stakeholders**;
 - (c) the main features of its upstream and downstream value chain and the undertaking's position in its value chain; and
 - (d) if applicable, the subsidiaries that are connected with material impacts and **risks**.

Disclosure Requirement 6 (SBM-2) – Interests and views of stakeholders

30. **If the undertaking engages with stakeholders, it shall disclose how their interests and views are taken into account by the undertaking's strategy and business model.**
31. The objective of this Disclosure Requirement is to understand the extent to which **stakeholders'** interests and views inform the undertaking's strategy and **business model**.
32. If the undertaking engages with its key **stakeholders**, it shall disclose a summarized description of:
- (a) its **stakeholder engagement**, including its strategy:
 - i. the undertaking's key **stakeholders**;
 - ii. whether engagement with them occurs and for which categories of stakeholders; and
 - iii. how its outcome is taken into account by the undertaking, where applicable, in amending its strategy and/or its business model; and
 - (b) the undertaking's understanding of the interests and views of its key stakeholders as they relate to the undertaking's strategy and **business model** to the extent that these were analysed during the **materiality** assessment process (see Disclosure Requirement IR-1 of this [draft] Standard).

⁸ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts set out by indicator #14 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments (respectively, 'Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)').

⁹ This information supports the needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1818 as set out by paragraph (b) of article 12.1.

Disclosure Requirement 7 (SMB-3) – Material impacts and risks and their interaction with strategy and business model

33. The undertaking shall disclose its material negative impacts and risks and how they interact with its strategy and business model.
34. The objective of this Disclosure Requirement is to provide an understanding of the material negative **impacts** and **risks** as they result from the undertaking's **materiality** assessment and how they originate from and trigger the adaptation of the undertaking's strategy and **business model**, including its resources allocation. The information to be disclosed about the management of the undertaking's material negative impacts and risks is prescribed in Section 2 of this [draft] Standard.
35. The undertaking shall disclose its material negative **impacts** and **risks** resulting from its **materiality** assessment (see Disclosure Requirement IR-1 of this [draft] Standard). The disclosure shall include a description of the following:
- (a) the undertaking's material negative impacts, including:
 - i. a brief description of how its material impacts affect (or, in the case of potential impacts, are likely to affect) people or the environment;
 - ii. how its material impacts originate from or are connected to the undertaking's strategy and **business model**;
 - iii. whether the undertaking is involved with the material impacts through its activities or because of its **business relationships** (including its subsidiaries);
 - iv. the reasonably expected time horizons of the impacts;
 - (b) if the undertaking has adjusted or plans to adjust its strategy and/or business model to address a material sustainability matter, it shall describe the current or planned changes to its strategy or business model(s);
 - (c) the **current financial effects** of the undertaking's **material risks** on its financial position, financial performance and cash flows and the material risks for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;
 - (d) the **anticipated financial effects** of the undertaking's material risks on its financial position, financial performance and cash flows over the short-, medium- and long-term, including the reasonably expected time horizons for those effects. This may include how the undertaking expects its financial position, financial performance and cash flows to change over the short, medium- and long-term, given its strategy to manage risks, taking into consideration:
 - i. its investment and disposal plans (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements), including plans that the undertaking is not contractually committed to; and
 - ii. its planned sources of funding to implement its strategy;
 - (e) changes to the material impacts and risks compared to the previous reporting period; and

- (f) specification of those negative impacts and risks that are covered by Disclosure Requirements included in this [draft] Standard as opposed to those covered by the undertaking using an additional entity-specific disclosure.
- 36. The undertaking may disclose the descriptive information required in paragraph 35 alongside the disclosures provided under the corresponding topical Sections of this [draft] Standard. If the undertaking decides to do so, it shall still present a statement of its material negative **impacts** and **risks** alongside its disclosures prepared under this chapter.
- 37. When disclosing information on material **impacts** and risks resulting from its **materiality** assessment, the undertaking shall apply the topic-specific information in Application Requirements SBM-3 for the topics that are material.
- 38. In particular, some information (summarised in the Table for AR 14 in this Section) is related to *Appendix B of the Section List of datapoints in cross-cutting and topical sections that are required by EU law.*

Voluntary Disclosure 8 (SBM-4) – Positive impacts and material opportunities

- 39. **The undertaking may disclose its material sustainability-related positive impacts and/or its material sustainability-related financial opportunities.**
- 40. Regarding opportunities, the undertaking shall not report on those for which the undertaking has not put in place or does not plan to put in place concrete **actions** to pursue them, accompanied by the necessary resources.
- 41. When disclosing its material positive **impacts** and/or **material opportunities** for environmental, social and business conduct **sustainability matters**, the undertaking shall include:
 - (a) a description of them, how they originate, the sustainability matter to which they are linked and their expected time horizon;
 - (b) how they result in **financial effects** for the undertaking; and
 - (c) the **actions** that the undertaking has put or plans to put in place to pursue the opportunity, including the resources that have been mobilised.
- 42. Quantitative **financial effects** deriving from **opportunities** may be disclosed only when they meet the qualitative characteristics of information, including reliability, and shall be accompanied by a description of the methodology used for calculation and the main assumptions used.

4. Impact and risk management

- 43. This chapter sets out disclosure requirements that provide an understanding of:
 - (a) the processes for identifying material **impacts** and **risks** and
 - (b) the information that, as a result of its **materiality assessment**, the undertaking has included in its **sustainability statement**.

4.1 Disclosures on the materiality assessment process

Disclosure Requirement 9 (IR-1) – Processes to identify and assess material impacts and risks

44. The undertaking shall provide a description of the processes it uses for identifying its impacts and risks and for assessing which ones are material.
45. The objective of this Disclosure Requirement is to provide an understanding of the process through which the undertaking identifies **impacts** and **risks** and assesses their **materiality** as the basis for determining the disclosures in its sustainability reporting (see Section 1 of this [draft] Standard chapter 3 and its related Application Requirements, which set out requirements and principles regarding the process for identifying and assessing material impacts and risks based on the principle of **double materiality**). If the undertaking discloses on a voluntary basis positive impacts or **opportunities**, it shall disclose the process through which it identifies them and assesses their materiality.
46. The undertaking shall provide the following information:
 - (a) an overview of the process for identifying, assessing and prioritising the undertaking's actual and potential negative **impacts** in relation to **sustainability matters** (a list of sustainability matters is defined in Section 1 AR 18) based on their relative severity and, for potential impacts, also likelihood (see [draft] Section 1, chapter 3.4 *Impact materiality*);
 - (b) an overview of the process for identifying, assessing and prioritising **risks** that have or may have **financial effects** (see draft Section 1 chapter 3.5 *Financial materiality*);
 - (c) the input parameters it uses (for example, data sources, the scope of covered operations and the details used in assumptions); and
 - (d) whether and how the process has changed compared to the prior reporting period, when the process(es) was/were modified for the last time and future revision dates of the **materiality** assessment.
47. The undertaking shall include the datapoints that derive from other EU legislation set in this Section.
48. When disclosing information on the processes for identifying and assessing material negative **impacts** and **risks**, the undertaking shall apply the topic specifications set out in *Application Requirements IR-1* (paragraphs from AR 27 to AR 44 of Section 2).
49. Regarding the process for assessing **impacts**, the undertaking may include an explanation of whether and how the process:
 - (a) focusses on specific areas due to heightened risk of adverse impacts;
 - (b) considers the impacts with which the undertaking is involved through its own operations or as a result of its business relationships, including its subsidiaries;
 - (c) includes consultation with affected **stakeholders** to understand how they may be impacted as well as with external experts; and
 - (d) prioritises negative impacts based on their relative severity and likelihood (see [draft] Section 1 chapter. 3.4 *Impact materiality*) and determines which **sustainability matters** are material for reporting purposes, including the qualitative or quantitative thresholds along with other criteria used as prescribed by Section 1 paragraph 3.4 *Impact materiality*.

50. Regarding the process for assessing **risks**, the undertaking may include a description of:
- (a) how the undertaking assesses the likelihood, magnitude and nature of the effects of the identified risk (such as the qualitative or quantitative thresholds and other criteria used as prescribed by Section 1 chapter 3.5 *Financial materiality*) and of
 - (b) how the undertaking prioritises **sustainability-related risks** relative to other types of risks, including its use of risk-assessment tools.
51. The undertaking may address all **sustainability matters** in the same location or present the relevant information separately in the topical sections of the **sustainability statement**.

Disclosure Requirement 10 (IR-2) – Disclosure Requirements in ESRS LSME covered by the undertaking’s sustainability statement

52. The undertaking shall report on the Disclosure Requirements complied with in its sustainability statement.
53. The objective of this Disclosure Requirement is to provide an understanding of the Disclosure Requirements included in the undertaking’s sustainability reporting and of the topics that have been omitted as not material as a result of the **materiality** assessment.
54. The undertaking shall include a list of the Disclosure Requirements complied with in preparing the **sustainability statement** following the outcome of its **materiality** assessment (see Section 1 of this [draft] Standard, chapter 3 *Double materiality as the basis for sustainability disclosures*), including the page numbers and/or paragraphs where the related disclosures are located in the sustainability statement. This list may be presented as a content index. The undertaking shall also include a table featuring all the datapoints that derive from other EU legislation as listed in *Appendix B* of this section, indicating where they can be found in the sustainability statement, and including those that the undertaking has assessed as not material, in which case the undertaking shall indicate this as ‘not material’ in the table in accordance with Section 1 paragraph 37.
55. If the undertaking concludes that climate change is not material and therefore omits all disclosure requirements set out in ESRS E1 *Climate change*, it shall disclose a detailed explanation of the conclusions of its **materiality** assessment with regard to climate change (see Section 1 paragraph 34), including a forward-looking analysis of the conditions that could lead the undertaking to conclude that climate change is material in the future.
56. If the undertaking concludes that a topic other than climate change is not material and therefore omits all the Disclosure Requirements in the Sections 3, 4, 5 and 6 of these [draft] Standard, it may provide a brief explanation of the conclusions of its **materiality** assessment for that topic.
57. The undertaking shall provide an explanation of how it has determined the material information to be disclosed in relation to the **impacts** and **risks** it has assessed to be material, including the use of thresholds, and/or how it has implemented the criteria in Section 1 chapter 3.2 *Material matters and materiality of information*.

Appendix A: Application Requirements – Section 2 General disclosures

1. Basis for preparation

Disclosure Requirement 1 (BP-1) – General basis for preparation of the sustainability statements

- AR 1. When describing to what extent the **sustainability statement** covers the undertaking's upstream and downstream **value chain** (see [draft] Section 1 section 4.1 *Reporting undertaking and value chain*), the undertaking may distinguish between:
- (a) the extent to which its materiality assessment of impacts and risks extends to its upstream and/or downstream value chain, with separate identification of how subsidiaries are treated;
 - (b) the extent to which its policies and actions extend to its value chain, with separate identification of how subsidiaries are treated; and
 - (c) the extent to which it includes upstream and/or downstream value chain data in disclosing on metrics, with separate identification of how subsidiaries are treated.

Disclosure Requirement 2 (BP-2) – Disclosures in relation to specific circumstances

- AR 2. The undertaking may disclose whether it relies on any European standards approved by the European Standardisation System (ISO/IEC or CEN/CENELEC standards) as well as the extent to which data and processes that are used for sustainability reporting purposes have been verified by an external assurance provider and found to conform to the corresponding ISO/IEC or CEN/CENELEC standard.

2. Governance

Disclosure Requirement 3 (GOV-1) – The role of the administrative, management and supervisory bodies

- AR 3. For undertakings with a unitary board, the percentage of **independent board members** corresponds to the percentage of independent non-executive board members; and for undertakings with a dual board, it corresponds to the percentage of independent members of the supervisory body.
- AR 4. In describing the roles and responsibilities of the **administrative, management and supervisory bodies** with regard to **sustainability matters**, the undertaking may specify:
- (a) the aspects of sustainability where oversight is exercised with regard to environmental, social and governance matters that the undertaking may be facing, including:
 - i. any assessment of and changes to sustainability-related aspects of the undertaking's strategy and **business model**;
 - ii. the identification and assessment of **material risks** and **impacts**;
 - iii. related **policies** (and **targets**), action plans and dedicated resources; and
 - iv. sustainability reporting;

- (b) the form that such oversight takes for each of the above aspects: i.e., information, consultation and decision-making; and
 - (c) the way such oversight is organised and formalised, i.e., with processes through which the administrative, management and supervisory bodies engage with these aspects of sustainability.
- AR 5. The description of the level of expertise or access to expertise of the **administrative, management and supervisory bodies** may be substantiated by illustrating the composition of the bodies, including the members on whom these bodies rely for expertise to oversee **sustainability matters**, and how they **leverage** that expertise as a body. In the description, the undertaking shall consider how the expertise and skills are relevant to the undertaking's material **impacts, risks** and **opportunities** and whether the bodies and/or its members have access to other sources of expertise such as specific experts, **training**, or other educational initiatives to update and develop sustainability-related expertise within these bodies.

Disclosure Requirement 4 (GOV-2) – Due diligence

- AR 6. This disclosure requirement does not mandate any specific behavioural requirements with regard to due diligence **actions** and does not extend to or modify the role of **administrative, management and supervisory bodies** as mandated by other legislation or regulation.

3. Strategy

Disclosure Requirement 5 (SBM-1) – Strategy, business model and value chain

- AR 7. To provide the information on sectors required by paragraph 30, the undertaking shall map its significant activities in accordance with ESRS sectors. If a code for a subsector does not exist, the caption 'others' shall be used to indicate this.
- AR 8. For the purposes of disclosures required in paragraph 30, a group of products and/or services offered, a group of markets and/or customer groups served, or an ESRS sector is significant for the undertaking if it meets one or both of the following criteria:
- (a) it accounts for more than 10 per cent of the undertaking's revenue and/or
 - (b) it is connected with the undertaking's material actual **impacts** or material potential negative impacts.
- AR 9. In preparing disclosures related to its **business model** and **value chain**, the undertaking shall consider:
- (a) its key **business relationships**, including with its customers, and their key characteristics, its key activities, key **suppliers**, key resources, key distribution channels, and key customer segments;
 - (b) the cost structure and revenue of its business segments, in line with IFRS 8 requirements adopted in the preparation of its financial statements, where applicable; and
 - (c) the potential **impacts** on and **risks** in its significant sector(s) and their possible relationship to its own business model(s) or value chain.

AR 10. Contextual information may be particularly relevant for **users** of the undertaking’s **sustainability statement** in order to understand the extent to which the reported disclosures include upstream and/or downstream **value chain** information. The description of the main features of the upstream and/or downstream value chain and, where applicable, the identification of key value chains should support an understanding of how the undertaking applies the requirements of [draft] Section 1 chapter 4 and the **materiality** assessment performed by the undertaking in line with [draft] Section 1 chapter 3. The description may provide a high-level overview of the key features of value chain entities, indicating their relative contribution to the undertaking’s performance and positions, and explaining how they contribute to the value creation of the undertaking.

Disclosure Requirement 6 (SBM-2) – Interests and views of stakeholders

AR 11. If the undertaking engages with **stakeholders**, their views and interests expressed as part of the undertaking’s engagement activities as well as through its due diligence process (if the undertaking has adopted one) may be relevant to one or more aspects of its strategy or **business model**. As such, they may affect the undertaking’s decisions regarding the future direction of the strategy or business model.

Disclosure Requirement 7 (SMB-3) – Material impacts and risks and their interaction with strategy and business model

AR 12. When describing where in its upstream and/or downstream **value chain** (subsidiaries included) material **impacts** and **risks** are concentrated, the undertaking shall consider geographical areas, facilities or types of assets, inputs, outputs and distribution channels.

AR 13. This disclosure may be expressed in terms of a single impact or risk or by aggregating groups of material **impacts** and **risks** when this provides more relevant information and does not obscure material information.

AR 14. When disclosing the information required under paragraph 37 of this Section on its material **impacts** and **risks**, the undertaking shall disclose the topic-specific information noted in the table below, specifying

ID	Application Requirement	Sustainability topic	EU related Data Points
1	whether or not it has sites located in or near biodiversity-sensitive areas and whether activities related to these sites negatively affect these areas;	Biodiversity	SFDR Tab. 1 KPI 7
2	whether it has identified material negative impacts with regard to land degradation , desertification or soil sealing;	Biodiversity	SFDR Tab. 2 KPI 10
3	whether it has operations that affect threatened species;	Biodiversity	SFDR Tab. 2 KPI 14.1

ID	Application Requirement	Sustainability topic	EU related Data Points
4	operations at significant risk of incidents of forced labour or compulsory labour either in terms of type of operation (such as manufacturing plant) or countries or geographic areas with operations considered at risk;	Own workforce	SFDR Tab. 3 KPI 13
5	operations at significant risk of incidents of child labour either in terms of type of operation (such as manufacturing plant) or countries or geographic areas with operations considered at risk; and	Own workforce	SFDR Tab. 3 KPI 12
6	any geographies (at country level or other levels) or commodities for which there is a significant risk of child labour or of forced labour or compulsory labour among workers in the undertaking's value chain.	Workers in the value chain	SFDR Tab. 3 KPI 12 and 13

AR 15. In addition, when disclosing its material **impacts** and **risks** the undertaking shall disclose additional topic-specific information defined in the following paragraphs.

Environment

Climate change

AR 16. When disclosing the information on material impacts and **risks** related to climate change, the undertaking shall explain for each climate-related risk it has identified whether it considers the risk to be a **climate-related physical risk** or **climate-related transition risk**.

AR 17. The undertaking shall describe the resilience of its strategy and **business model** in relation to climate change. This description may include:

- (a) the scope of the resilience analysis
- (b) how and when the resilience analysis has been conducted, including whether **climate scenario analysis** was used as referenced in the Disclosure Requirement related to IR-1 and the related application requirement paragraphs; and
- (c) the results of the resilience analysis, including the results from the use of scenario analysis.

Social

Own workforce

- AR 18. When disclosing the information on material **impacts** and **risks** related to its **own workforce**, the undertaking shall provide the following information:
- (a) brief description of the types of **own workers** subject to material impacts by its operations and of whether they are **employees**, individual contractors (i.e., self-employed workers) or workers provided by third-party undertakings primarily engaged in employment activities;
 - (b) in the case of material negative impacts, information on whether they are widespread or systemic in contexts where the undertaking operates (for example, **child labour** or **forced** or compulsory labour in specific countries or regions) or whether they are related to individual **incidents** (for example, an industrial accident or an oil spill);
 - (c) any **material risks** for the undertaking arising from impacts and **dependencies** on its own workers; and
 - (d) any material negative impacts on its own workforce that may arise from **transition plans** for reducing negative impacts on the environment and achieving greener and climate-neutral operations, including information on the impacts on own workforce caused by the undertaking's plans and **actions** for reducing carbon **emissions** in line with international agreements.
- AR 19. In describing the main types of people in its **own workforce** who are or could be negatively affected based on the **materiality** assessment, the undertaking shall disclose whether and how it has developed an understanding of how people with particular characteristics, those working in particular contexts or those undertaking particular activities may be at greater risk of harm.
- AR 20. The undertaking shall disclose which, if any, of its **material risks** arising from **impacts** and **dependencies** on people in its **own workforce** relate to specific groups of people (for example, to particular age groups or people working in a particular factory or country) rather than to all of its own workforce (for example, a general **pay** cut or **training** offered to all people in its own workforce).

Workers in the value chain

- AR 21. When disclosing the information on material **impacts** and **risks** related to workers in the **value chain**, the undertaking shall provide the following information:
- (a) whether and how actual and potential negative impacts on **value chain workers** originate from or are connected to the undertaking's strategy and **business models** and whether and how they inform and contribute to adapting the undertaking's strategy and business model;
 - (b) the relationship between its **material risks** arising from impacts and **dependencies** on **value chain workers** and its strategy and **business model**,
 - (c) a brief description of the types of value chain workers subject to material negative impacts by its own operations or through its upstream and downstream value chain, including those that are particularly vulnerable to negative impacts whether due to

inherent characteristics or to the particular context, such as trade unionists, migrant workers, home workers, women or young workers; and,

- (d) in the case of material negative impacts, whether they are either (i) widespread or systemic in contexts where the undertaking operates or has sourcing or other **business relationships** (e.g., **child labour** or **forced labour**, in particular commodity **supply chains** in specific countries or regions) or (ii) related to individual **incidents** (e.g., an industrial accident or an oil spill) or to specific business relationships. This includes consideration of impacts on **value chain workers** that may arise from the transition to greener and climate-neutral operations.
- (e) any material risks for the undertaking arising from impacts and **dependencies** on **value chain workers**.
- (f) In describing the main types of workers in the **value chain** who are or could be negatively affected based on the **materiality** assessment, the undertaking shall disclose whether and how it has developed an understanding of how people with particular characteristics, those working in particular contexts or those undertaking particular activities may be at greater risk of harm.

AR 22. The undertaking shall disclose which, if any, of its **material risks** arising from **impacts** and **dependencies** on its **value chain** workers relate to specific groups of value chain workers (for example, to particular age groups, workers in a particular factory or country) rather than to all of the value chain workers.

Affected communities

AR 23. When disclosing the information on material **impacts** and **risks** related to **affected communities**, the undertaking shall provide the following information:

- (a) whether and how actual and potential negative impacts on affected communities originate from or are connected to the undertaking's strategy and **business models** and whether and how they inform and contribute to adapting the undertaking's strategy and business model;
- (b) the types of communities that the undertaking may consider for material impacts, which are:
 - i. communities living or working around the undertaking's operating **site** or more remote communities affected by activities of those sites;
 - ii. communities along the undertaking's upstream/downstream **value chain**;
 - iii. communities at one or both endpoints of the value chain; and
 - iv. communities of **indigenous peoples**;

AR 24. In the case of material negative impacts, whether they are widespread or systemic in contexts where the undertaking operates or has sourcing or other business relationships (for example, marginalised populations suffering impacts on their health and quality of life in a highly industrialised area), or whether they are related to individual **incidents** (e.g., a toxic **waste** spill affecting a community's access to clean drinking water) or to specific business

relationships (e.g., a peaceful protest by communities against business operations met with a violent response from the undertaking's security services). This includes consideration of impacts on affected communities that may arise from the transition to greener and climate-neutral operations. Potential impacts include impacts associated with innovation, restructuring, and closure of mines as well as increased mining of minerals needed for the transition to a sustainable economy and solar panel production;

- (a) any material risks for the business arising from impacts and **dependencies** on affected communities; and
- (b) in describing the main types of communities who are or could be negatively affected based on the **materiality assessment**, whether and how it has developed an understanding of how affected communities with particular characteristics, those living in particular contexts, or those undertaking particular activities may be at greater risk of harm.

AR 25. The undertaking shall disclose which, if any, of its **material risks** arising from **impacts** and **dependencies** on **affected communities** relate to specific groups of affected communities rather than to all affected communities.

Consumers and/or end-users

AR 26. When disclosing the information on material **impacts** and **risks** related to **consumers** and/or **end-users**, the undertaking shall provide the following information:

- (a) whether and how actual and potential negative impacts on consumers and/or end-users originate from or are connected to the undertaking's strategy and business model and whether and how they inform and contribute to adapting the undertaking's strategy and business model;
- (b) the types of consumers and/or end-users that the undertaking may consider for material impacts, which are:
 - i. consumers and/or end-users of products that are inherently harmful to people and/or that increase risks for chronic disease;
 - ii. consumers and/or end-users of services with potentially negatively impacts on rights to privacy, personal data protection, freedom of expression and non-**discrimination**;
 - iii. consumers and/or end-users who are dependent on accurate and accessible product- or service-related information, such as manuals and product labels, to avoid potentially damaging use of a product or service; and
 - iv. consumers and/or end-users who are particularly vulnerable to health, privacy negative impacts or negative impacts from marketing and sales strategies, such as children or financially vulnerable individuals;
- (c) in the case of material negative impacts, whether they are widespread or systemic in contexts where the undertaking operates or sells or provides its products or services (for example, state surveillance that affects the privacy of service users), or whether they are related to individual incidents (for example, a defect linked to a particular product) or to specific business relationships (for example, if a business partner uses marketing that inappropriately targets young consumers);
- (d) any material risks for the business arising from impacts and dependencies on consumers and end-users; and

- (e) in describing the main types of consumers and end-users who are or could be negatively affected based on the materiality assessment, the undertaking shall disclose whether and how it has developed an understanding of how consumers and end-users with particular characteristics, or those using particular products or services, may be at greater risk of harm.

AR 27. The undertaking shall disclose which, if any, of its **material risks** arising from **impacts** and **dependencies** on **consumers** and/or **end-users** relate to specific groups of consumers and/or end-users (for example, to particular age groups) rather than to all consumers and/or end-users.

4. Impact and risk management

Disclosure Requirement 9 (IR-1) – Description of the processes to identify and assess material impacts and risks

AR 28. With reference to paragraph 48 on the processes to identify and assess material **impacts** and **risks**, the undertaking shall disclose for material impacts and risks additional topic specific information defined in the following paragraphs.

Environment

Climate change

AR 29. When describing the process to identify and assess climate-related **impacts** and **risks** the undertaking shall cover the following:

- (a) impacts on climate change, in particular the undertaking's GHG emissions (as required by [draft] Section 4, Disclosure Requirement E1-3);
- (b) climate-related physical risks (as required by [draft] Section 4, Disclosure Requirement E-1-4); and
- (c) climate-related transition risks (as required by [draft] Section 4, Disclosure Requirement E-1-4).

AR 30. When disclosing the information on the processes to identify and assess climate impacts as required under AR 26 (a), the undertaking shall explain how it has:

- (a) screened its activities and plans in order to identify actual and potential future GHG emission sources and, if applicable, drivers for other climate-related impacts (e.g., **emissions** of black carbon or tropospheric ozone or **land-use change**) in own operations and along the **value chain**; and
- (b) assessed its actual and potential impacts on climate change (i.e., its total GHG emissions) as material in line with the CSRD and SFDR requirements.

AR 31. When disclosing the information on the processes to identify and assess **physical risks** as required under AR 29 (b), the undertaking shall explain whether and how:

- (a) it has identified climate-related hazards (see table below) over the short-, medium- and long-term and determined whether its assets and business activities may be exposed to these hazards;
- (b) it has defined short-, medium- and long-term time horizons and how these definitions are linked to the expected lifetime of its assets, strategic planning horizons and capital allocation plans;
- (c) it has assessed the extent to which its assets and business activities may be exposed and are sensitive to the identified climate-related hazards, taking into consideration the likelihood, magnitude and duration of the hazards as well as the geospatial coordinates (such as Nomenclature of Territorial Units of Statistics – NUTS for the EU territory) specific to the undertaking's locations and **supply chains**; and



- (d) whether and how the identified climate-related hazards and assessed exposure and sensitivity are informed by high **emissions** climate **scenarios**. This may, for example, be based on IPCC SSP5-8.5, relevant regional climate projections based on these emission scenarios, or NGFS (Network for Greening the Financial System) climate scenarios with high physical risk, such as ‘Hot house world’ or ‘Too little, too late’. For general requirements regarding climate-related **scenario analysis**, see AR 22 and AR 23.

Classification of climate-related hazards (Source: Commission delegated regulation (EU) 2021/2139)				
	Temperature-related	Wind-related	Water-related	Solid mass-related
Chronic	Changing temperature (air, freshwater, marine water)	Changing wind patterns	Changing precipitation patterns and types (rain, hail, snow/ice)	Coastal erosion
	Heat stress		Precipitation or hydrological variability	Soil degradation
	Temperature variability		Ocean acidification	Soil erosion
	Permafrost thawing		Saline intrusion	Solifluction
			Sea level rise	
			Water stress	
Acute	Heat wave	Cyclones, hurricanes, typhoons	Drought	Avalanche
	Cold wave/frost	Storms (including blizzards, dust, and sandstorms)	Heavy precipitation (rain, hail, snow/ice)	Landslide
	Wildfire	Tornado	Flood (coastal, fluvial, pluvial, ground water)	Subsidence
			Glacial lake outburst	

- AR 32. When disclosing the information on the processes to identify climate-related transition risks, as required by AR 29 (c), the undertaking shall explain whether and how it has:
- (a) identified transition events (see the table with examples below) over the short-, medium- and long-term and screened whether its assets and business activities may be exposed to these events. In case of transition risks, what is considered long-term may cover more than ten years and may be aligned with climate-related public **policy** goals;
 - (b) assessed the extent to which its assets and business activities may be exposed and are sensitive to the identified transition events, taking into consideration the likelihood, magnitude and duration of the transition events;
 - (c) informed the identification of transition events and the assessment of exposure by climate-related **scenario analysis**, considering at least a **scenario** consistent with the Paris

Agreement and limiting climate change to 1.5°C, for example, based on scenarios of the International Energy Agency (Net zero Emissions by 2050, Sustainable Development Scenario, etc.) or NGFS (Network for Greening the Financial System) climate scenarios. For the general requirements concerning climate-related scenario analysis, see paragraphs AR 22 and AR 23; and

- (d) identified assets and business activities that are incompatible with or need significant efforts to be compatible with a transition to a climate-neutral economy (for example, due to significant **locked-in GHG emissions** or incompatibility with the requirements for Taxonomy-alignment under Commission Delegated Regulation (EU) 2021/2139).

Examples of climate-related transition events (examples based on TCFD classification)			
Policy and legal	Technology	Market	Reputation
Increased pricing of GHG emissions	Substitution of existing products and services with lower emissions options	Changing customer behaviour	Shifts in consumer preferences
Enhanced emissions-reporting obligations	Unsuccessful investment in new technologies	Uncertainty in market signals	Stigmatization of sector
Mandates on and regulation of existing products and services	Costs of transition to lower emissions technology	Increased cost of raw materials	Increased stakeholder concern
Mandates on and regulation of existing production processes			Negative stakeholder feedback
Exposure to litigation			

Climate-related scenario analysis

AR 36. When disclosing the information required under AR 29 and AR 31, the undertaking shall explain if and how it has used climate-related **scenario analysis** that is commensurate with its circumstances to inform the identification and assessment of **physical** and **transition risks** over the short-, medium- and long-term, including:

- (a) which **scenarios** were used, their sources and alignment with state-of-the-art science;
- (b) narratives, time horizons and endpoints used with a discussion of why it believes the range of scenarios used covers its plausible **risks** and uncertainties;
- (c) key forces and drivers taken into consideration in each scenario and why these are relevant to the undertaking, for example, **policy** assumptions, macroeconomic trends, energy usage and mix, and technology assumptions; and
- (d) key inputs and constraints of the scenarios, including their level of detail (e.g., whether the analysis of physical-related risks is based on geospatial coordinates specific to the undertaking’s locations or national- or regional-level broad data).

- AR 37. When conducting **scenario analysis**, the undertaking may consider the following guidance: TCFD Technical Supplement on 'The Use of Scenario Analysis in Disclosure of Climate Related Risks and Opportunities' (2017); TCFD 'Guidance on Scenario Analysis for Non-Financial Companies' (2020); ISO 14091: 2021 'Adaptation to climate change – Guidelines on vulnerability **impacts** and risk assessment'; any other recognized industry standards such as NGFS (Network for Greening the Financial System); and EU, national, regional and local regulations.
- AR 38. The undertaking shall briefly explain how the **climate scenarios** used are compatible with the critical climate-related assumptions made in the financial statements.

Pollution, water and marine resources, biodiversity, resource use and circular economy

- AR 39. The undertaking shall describe the process to identify and assess **impacts** and **risks** related to **pollution** and water and **marine resources**, including:
- (a) methodologies, assumptions and tools used to screen its **site** locations and business activities in order to identify its actual and potential impacts and risks related to pollution, water and marine resources, and resource use and **circular economy**; and,
 - (b) if applicable, the processes for the undertaking's consultations, particularly with **affected communities**.
- AR 40. The undertaking shall describe its process to identify material **impacts** and **risks** related to biodiversity. The description of the process shall include whether and how the undertaking:
- (a) identified and assessed actual and potential impacts on **biodiversity** and **ecosystems** at own **site** locations and in the upstream and downstream **value chain**, including the assessment criteria applied;
 - (b) identified and assessed **dependencies** on biodiversity and ecosystems and their services at own site locations and in the upstream and downstream **value chain**, including the assessment criteria applied, and whether this assessment includes **ecosystem services** that are disrupted or likely to be disrupted;
 - (c) identified and assessed **transition** and **physical risks**;
 - (d) considered **systemic risks**; and
 - (e) conducted consultations with **affected communities**.
- AR 41. The undertaking shall specifically disclose whether or not it has **sites** located in or near **biodiversity-sensitive areas** and whether activities related to these sites negatively affect these areas.
- AR 42. The undertaking shall describe its process to identify material **impacts** and **risks** related to Resource use and **circular economy** (E5), including:
- (a) methodologies, assumptions and tools used to screen its assets and activities in order to identify its actual and potential impacts and risks; and
 - (b) the process for conducting consultations, particularly with **affected communities**.

LEAP Approach

- AR 43. When conducting a **materiality** assessment on environmental subtopics other than climate change, the undertaking may consider the four phases below, also known as the LEAP approach:
- (a) Phase 1: locate where in the own operations and its upstream and downstream **value chain** the interface with nature takes place;
 - (b) Phase 2: evaluate the environmental-related **dependencies** and **impacts**;
 - (c) Phase 3: assess the **material risks**; and
 - (d) Phase 4: prepare and report the results of the materiality assessment.
- AR 44. The **materiality** assessment for such matters corresponds to the first three phases of this LEAP approach, while the fourth phase addresses the outcome of the process.

Disclosure Requirement 10 (IR-2) – Topics covered by the undertaking’s sustainability statements

- AR 45. Notwithstanding the basis for the presentation of the information about **sustainability matters** included in the [draft] Standard Section 1 chapter 8 *Structure of sustainability statements*, the undertaking may disclose the list of the Disclosure Requirements complied with in preparing the **sustainability statement** (see paragraph 52 in the general information part or in other parts of the sustainability statement as it deems appropriate. The undertaking may use a content index, i.e., a tabular list of the Disclosure Requirements included in the sustainability statement indicating where they are located (page/paragraphs).

Appendix B: List of datapoints in cross-cutting and topical sections that derive from other EU legislation

This appendix is an integral part of Section 2 and of the [draft] LSME Standard. The table below illustrates the datapoints that derive from other EU legislation.

Disclosure requirement and related datapoint	SFDR ¹⁰ reference	Pillar 3 ¹¹ reference	Benchmark regulation ¹² reference	EU climate law ¹³ reference
Section 2 GOV-1 Board's gender diversity paragraph 20(c)	Indicator number 13 of Table #1 of Annex 1		Commission Delegated Regulation (EU) 2020/1816 ¹⁴ , Annex II	
Section 2 GOV-1 Percentage of board members who are independent paragraph 20(d)			Delegated Regulation (EU) 2020/1816, Annex II	
Section 2 GOV-2 Statement on due diligence paragraph 24	Indicator number 10 Table #3 of Annex 1			
Section 2 SBM-1 Involvement in activities related to fossil fuel activities paragraph 30(c) i	Indicators number 4 Table #1 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 ¹⁵ Table 1: Qualitative	Delegated Regulation (EU) 2020/1816, Annex II	

¹⁰ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosures Regulation) (OJ L 317, 9.12.2019, p. 1).

¹¹ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Capital Requirements Regulation "CRR") (OJ L 176, 27.6.2013, p. 1).

¹² Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171, 29.6.2016, p. 1).

¹³ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (OJ L 243, 9.7.2021, p. 1).

¹⁴ Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published (OJ L 406, 3.12.2020, p. 1).

¹⁵ Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of environmental, social and governance risks (OJ L 324, 19.12.2022, p.1.).

Disclosure requirement and related datapoint	SFDR ¹⁰ reference	Pillar 3 ¹¹ reference	Benchmark regulation ¹² reference	EU climate law ¹³ reference
		information on Environmental risk and Table 2: Qualitative information on Social risk		
Section 2 SBM-1 Involvement in activities related to chemical production paragraph 30(c) ii	Indicator number 9 Table #2 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II	
Section 2 SBM-1 Involvement in activities related to chemical production paragraph 30(c) iii	Indicator number 14 Table #1 of Annex 1		Delegated Regulation (EU) 2020/1818 ¹⁶ , Article 12(1) Delegated Regulation (EU) 2020/1816, Annex II	
Section 2 SBM-1 Involvement in activities related to chemical production paragraph 30(c) iv			Delegated Regulation (EU) 2020/1818, Article 12(1) Delegated Regulation (EU) 2020/1816, Annex II	
Section 3 AR 6 ID 19 Transition plan to reach climate neutrality by 2050				Regulation (EU) 2021/1119, Article 2(1)
Section 3 AR 6 ID 20 Undertakings excluded from Paris-aligned Benchmarks		Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation	Delegated Regulation (EU) 2020/1818, Article 12.1 (d) to (g), and Article	

¹⁶ Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Parisaligned Benchmarks (OJ L 406, 3.12.2020, p. 17).

Disclosure requirement and related datapoint	SFDR ¹⁰ reference	Pillar 3 ¹¹ reference	Benchmark regulation ¹² reference	EU climate law ¹³ reference
		(EU) 2022/2453 Template 1: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity	12.2	
Section 3 AR 67 ID 1 GHG emission reduction targets	Indicator number 4 Table #2 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 3: Banking book – Climate change transition risk: alignment metrics	Delegated Regulation (EU) 2020/1818, Article 6	
Section 4 E1-1 Energy consumption from fossil sources paragraph 7a)	Indicator number 5 Table #1 and Indicator n. 5 Table #2 of Annex 1			
Section 4 E1-1 Disaggregated and separated non-renewable energy production and renewable energy production in MWh paragraph 7d)	Indicator number 5 Table #1 of Annex 1			
Section 4 E1-1 Energy intensity	Indicator number 6			

Disclosure requirement and related datapoint	SFDR ¹⁰ reference	Pillar 3 ¹¹ reference	Benchmark regulation ¹² reference	EU climate law ¹³ reference
associated with activities in high climate impact sectors paragraphs 8 to 10	Table #1 of Annex 1			
Section 4 E1-2 Gross Scope 1, 2, 3 and Total GHG emissions paragraph 11	Indicators number 1 and 2 Table #1 of Annex 1	Article 449a; Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 1: Banking book – Climate change transition risk: Credit quality of exposures by sector, emissions and residual maturity	Delegated Regulation (EU) 2020/1818, Article 5(1), 6 and 8(1)	
Section 4 E1-2 Gross Scope 1, 2, 3 and Total GHG emissions paragraph 20 and 21	Indicators number 3 Table #1 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 3: Banking book – Climate change transition risk: alignment metrics	Delegated Regulation (EU) 2020/1818, Article 8(1)	
Section 4 E1-3 GHG removals and carbon credits paragraph 22				Regulation (EU) 2021/1119, Article 2(1)

ESRS LSME ED

Disclosure requirement and related datapoint	SFDR ¹⁰ reference	Pillar 3 ¹¹ reference	Benchmark regulation ¹² reference	EU climate law ¹³ reference
<p>Section 4 E1-4 Exposure of the benchmark portfolio to climate-related physical risks paragraph 29</p>			<p>Delegated Regulation (EU) 2020/1818, Annex II Delegated Regulation (EU) 2020/1816, Annex II</p>	
<p>Section 4 E1-4 Disaggregation of Monetary amounts by acute and chronic physical risk paragraph 29(a) Section 4 E1-4 Location of significant assets at material physical risk paragraph 29(c).</p>		<p>Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 paragraphs 46 and 47; Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk.</p>		
<p>Section 4 E1-4 Breakdown of the carrying value of its real estate assets by energy-efficiency classes paragraph 30(c).</p>		<p>Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Paragraph 34; Template 2: Banking book -Climate change transition risk: Loans collateralised by</p>		

Disclosure requirement and related datapoint	SFDR ¹⁰ reference	Pillar 3 ¹¹ reference	Benchmark regulation ¹² reference	EU climate law ¹³ reference
		immovable property -Energy efficiency of the collateral		
Section 4 E1-4 Degree of exposure of the portfolio to climate-related opportunities paragraph 33			Delegated Regulation (EU) 2020/1818, Annex II	
Section 4 E2-1 Amount of each pollutant listed in Annex II of the E-PRTR Regulation (European Pollutant Release and Transfer Register) emitted to air, water and soil, paragraph 36(a)	Indicator number 8 Table #1 of Annex 1 Indicator number 2 Table #2 of Annex 1 Indicator number 1 Table #2 of Annex 1 Indicator number 3 Table #2 of Annex 1			
Section 3 AR 6 ID 3 Water and marine resources	Indicator number 7 Table #2 of Annex 1			
Section 3 AR 6 ID 4 Water and marine resources	Indicator number 8 Table 2 of Annex 1			
Section 3 AR 6 ID 8 Sustainable oceans and seas	Indicator number 12 Table #2 of Annex 1			
Section 4 E3-1 Total water recycled and reused paragraph 44(c).	Indicator number 6.2 Table #2 of Annex 1			
Section 4 E3-1 Total water	Indicator number 6.1 Table #2 of			

Disclosure requirement and related datapoint	SFDR ¹⁰ reference	Pillar 3 ¹¹ reference	Benchmark regulation ¹² reference	EU climate law ¹³ reference
consumption in m3 per net revenue on own operations paragraph 45	Annex 1			
Section 2 AR 28 ID 1 sites located in or near biodiversity-sensitive areas and activities related to these sites negatively affect these areas	Indicator number 7 Table #1 of Annex 1			
Section 2 AR 28 ID 2 negative impacts with regards to land degradation, desertification or soil sealing	Indicator number 10 Table #2 of Annex 1			
Section 2 AR 28 ID 3 operations affecting threatened species	Indicator number 14 Table #2 of Annex 1			
Section 3 AR 6 ID 5 Sustainable land / agriculture practices or policies	Indicator number 11 Table #2 of Annex 1			
Section 3 AR 6 ID 8 Sustainable oceans/ seas practices or policies	Indicator number 12 Table #2 of Annex 1			
Section 3 AR 6 ID 7 Policies to address deforestation	Indicator number 15 Table #2 of Annex 1			
Section 4 E5-2 Non-recycled waste paragraph 62	Indicator number 13 Table #2 of Annex 1			
Section 4 E5-2 Hazardous waste and radioactive waste paragraph 64	Indicator number 9 Table #1 of Annex 1			
Section 2 AR 17 ID 1 Risk of incidents of forced labour	Indicator number 13 Table #3 of Annex I			

Disclosure requirement and related datapoint	SFDR ¹⁰ reference	Pillar 3 ¹¹ reference	Benchmark regulation ¹² reference	EU climate law ¹³ reference
Section 2 AR 17 ID 2 Risk of incidents of child labour	Indicator number 12 Table #3 of Annex I			
Section 3 AR 6 ID 16 Human rights policy commitments	Indicator number 9 Table #3 and Indicator number 11 Table #1 of Annex I			
Section 3 AR 6 ID 11 Due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8,			Delegated Regulation (EU) 2020/1816, Annex II	
Section 3 AR 6 ID 15 Processes and measures for preventing trafficking in human beings	Indicator number 11 Table #3 of Annex I			
Section 3 AR 6 ID 10 Workplace accident prevention policy or management system	Indicator number 1 Table #3 of Annex I			
Section 3 AR 6 ID 9 grievance/complaints handling mechanisms	Indicator number 5 Table #3 of Annex I			
Section 5 S1-7 Number of fatalities and number and rate of work-related accidents Paragraph 35(a) and 35(b)	Indicator number 2 Table #3 of Annex I		Delegated Regulation (EU) 2020/1816, Annex II	
Section 5 S1-7 Number of days lost to injuries, accidents, fatalities or illness paragraph 35(c)	Indicator number 3 Table #3 of Annex I			
Section 5 S1-8 Unadjusted gender pay gap	Indicator number 12		Delegated Regulation (EU)	

Disclosure requirement and related datapoint	SFDR ¹⁰ reference	Pillar 3 ¹¹ reference	Benchmark regulation ¹² reference	EU climate law ¹³ reference
Paragraph 39(a)	Table #1 of Annex I		2020/1816, Annex II	
Section 5 S1-8 Excessive CEO pay ratio paragraph Paragraph 39 (b)	Indicator number 8 Table #3 of Annex I			
Section 5 S1-9 Incidents of discrimination Paragraph 45 (a)	Indicator number 7 Table #3 of Annex I			
Section 3 AR 6 ID 2 and ID 13 Non-respect of UNGPs on Business and Human Rights and OECD	Indicator number 10 Table #1 and Indicator n. 14 Table #3 of Annex		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818 Art 12 (1)	
Section 2 AR 17 ID 3 Significant risk of child labour or forced labour in the value chain	Indicators number 12 and n. 13 Table #3 of Annex I			
Section 3 AR 6 ID 1 and 16 Human rights policy commitments	Indicator number 9 Table #3 and Indicator n. 11 Table #1 of Annex 1			
Section 3 AR 6 ID 14 and ID 15 Policies related to value chain workers	Indicator number 11 and n. 4 Table #3 of Annex 1			
Section 3 AR 6 ID 2 Non-respect of UNGPs on Business and Human Rights principles and OECD guidelines	Indicator number 10 Table #1 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818, Art 12(1)	

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Disclosure requirement and related datapoint	SFDR ¹⁰ reference	Pillar 3 ¹¹ reference	Benchmark regulation ¹² reference	EU climate law ¹³ reference
Section 3 AR 6 ID 12 Due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8			Delegated Regulation (EU) 2020/1816, Annex II	
Section 3 AR 6 ID 13 Human rights issues and incidents connected to its upstream and downstream value chain	Indicator number 14 Table #3 of Annex 1			
Section 3 AR 6 ID 1 and ID 16 Human rights policy commitments	Indicator number 9 Table #3 of Annex 1 and Indicator number 11 Table #1 of Annex 1			
Section 3 AR 6 ID 2 Non-respect of UNGPs on Business and Human Rights, ILO principles or and OECD guidelines	Indicator number 10 Table #1 Annex 1		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818, Art 12(1)	
Section 3 AR 6 ID 13 Human rights issues and incidents	Indicator number 14 Table #3 of Annex 1			
Section 3 AR 6 ID 1 and ID 16 Policies related to consumers and end-users	Indicator number 9 Table #3 and Indicator number 11 Table #1 of Annex 1			
Section 3 AR 6 ID 2	Indicator number 10			

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Disclosure requirement and related datapoint	SFDR¹⁰ reference	Pillar 3¹¹ reference	Benchmark regulation¹² reference	EU climate law¹³ reference
Non-respect of UNGPs on Business and Human Rights and OECD guidelines	Table #1 of Annex 1			
Section 3 AR 6 ID 3 Human rights issues and incidents	Indicator number 14 Table #3 of Annex 1			
Section 3 AR 6 ID 18 United Nations Convention against corruption	Indicator number 15 Table #3 of Annex 1			
Section 3 AR 6 ID 17 Protection of whistle-blowers	Indicator number 6 Table #3 of Annex 1			
Section 6 G1-2 Fines for violation of anti-corruption and anti-bribery laws Paragraph 9(a)	Indicator number 17 Table #3 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II)	
Section 6 G1-2 Standards of anti-corruption and anti-bribery Paragraph 9(b)	Indicator number 16 Table #3 of Annex 1			

ESRS LSME ED – SECTION 3 POLICIES, ACTIONS AND TARGETS

DISCLAIMER

Section 3 *Policies, actions and targets* is set out in paragraphs 1–30. The following appendices of Section 3 have the same authority as the main body of the [draft] Standard:

- *Appendix A: Application Requirements,*

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Disclosure Requirement 11 (IR-3) – Policies and actions in relation to sustainability matters 89

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Section 3- Policies, Actions and Targets

Objective

1. This [draft] Section sets out the information required:
 - (a) in relation to policies, actions and targets to prevent, mitigate and remediate actual and potential material negative **impacts** and to address **material risks** (collectively, to 'manage material **sustainability matters**') for a material matter, either as required by Disclosure Requirements in the topical Sections of this Standard or on an entity-specific basis;
 - (b) about the undertaking's processes for engaging with **own workers**, workers in the **value chain, affected communities, consumers** and **end-users**, and their representatives on impacts if the undertaking has those processes in place; and
 - (c) about the undertaking's processes to remediate negative impacts and channels for **own workforce**, value chain workers, affected communities, consumers and end-users and to raise concerns if the undertaking has those processes in place.
2. This [draft] Section covers **impact** and risk management and policies, actions and targets areas defined in Section 1 *General requirements* of this [draft] Standard, and it is applicable in conjunction with Section 2 *General disclosures* and the topical Sections of this [draft] Standard.
3. The undertaking shall apply the requirements in this Section when it concludes that the corresponding topic is material (according to chapter 3.3 *Double materiality*, 3.4 *Impact materiality* and 3.5 *Financial materiality* of Section 1). Following the undertaking's assessment of the **materiality** of the information according to paragraph 36 of Section 1, the **sustainability statement** shall include those disclosures prescribed in this Section that are assessed to be material.
4. The requirements in this Section shall be considered when the undertaking reports on a voluntary basis on material positive **impacts** and/or **opportunities**.

Disclosure Requirement 11 (IR-3) – Policies and actions in relation to sustainability matters

5. **The undertaking shall disclose information on its adopted policies and the actions taken or planned to be taken to manage material sustainability matters.**
6. The objective of this Disclosure Requirement is to set the information that shall be provided when reporting on **policies** and **actions** in relation to a material matter.
7. For each sustainability matter that it considers material, the undertaking shall disclose:
 - (a) policies that it has in place to prevent, mitigate and remediate actual and potential **impacts** and to address **risks**; and
 - (b) key **actions** taken or planned to address material impacts and risks and, where applicable, to achieve the objectives of related **policies**.
8. When providing disclosures on **policies**, the undertaking shall include the following information:
 - (a) a description of the key contents of the **policy**, including its general objectives, and of which material **impacts** or **risks** the policy relates to;

- (b) a description of the scope of the policy in terms of activities, **value chain**, geographies and, if relevant, affected **stakeholder groups**;
 - (c) the most senior level in the undertaking's organisation that is accountable for the implementation of the policy;
 - (d) a reference, if relevant, to the third-party standards or initiatives that the undertaking commits to respect through the implementation of the policy;
 - (e) if relevant, a description of the consideration given to the interest of key **stakeholders** in setting the policy; and
 - (f) if relevant, whether and how the undertaking makes the policy available to potentially affected stakeholders and to stakeholders who need to help implement it.
9. When providing disclosures on **actions**, the undertaking shall disclose the following information:
- (a) the list of key actions taken in the reporting year and planned for the future as well as their expected outcomes;
 - (b) the scope of the key actions (i.e., coverage in terms of activities, **value chain** geographies and, where applicable, affected **stakeholder** groups);
 - (c) the time horizons under which the undertaking intends to complete each key action;
 - (d) if applicable, key actions taken (along with results) to provide for, cooperate in or support the provision of **remedy** for those harmed by actual material impacts; and,
 - (e) if applicable, quantitative and qualitative information regarding the progress of actions or action plans disclosed in prior periods.
10. Where the implementation of an action plan requires significant operational expenditures (Opex) and/or capital expenditures (Capex), the undertaking shall:
- (a) describe the type of current and future financial and other resources allocated to the action plan, including, if applicable, the relevant terms of sustainable finance instruments such as green bonds, social bonds and green loans, the environmental or social objectives, and whether the ability to implement the **actions** or action plan depends on specific preconditions, e.g., granting of financial support or public **policy** and market developments;
 - (b) provide the amount of current financial resources and explain how they relate to the most relevant amounts presented in the financial statements; and
 - (c) provide the amount of future financial resources.
11. The corresponding disclosures related to **policies** and **actions** shall be located alongside disclosures prescribed by the relevant topical sections. When a single policy or the same actions address several interconnected **sustainability matters**, the undertaking may disclose the required information in its reporting under one topical section and cross-reference it in its reporting under other topical sections.
12. When disclosing information on **policies** and **actions** in relation to a material sustainability matter, subject to paragraphs 33 and 34 of Section 1 of this [draft] Standard the undertaking shall apply the additional topical requirements set in Application Requirements IR-3 (AR 1 to AR 116).
13. In particular, for **policies** and **actions** pertaining to a material matter, the undertaking shall include the datapoints derived from EU legislation (summarised in Table of AR 6).

14. If the undertaking has not adopted **policies** and/or **actions** with reference to the specific material **sustainability matter** concerned, it shall state this to be the case. It may also disclose the timeline for implementing them if it has such plans.

Disclosure Requirement 12 (IR-4) – Targets in relation to sustainability matters

15. If the undertaking has set sustainability-related targets, it shall disclose information about these targets.
16. The objective of this Disclosure Requirement is to provide an understanding on how the undertaking has set measurable time-oriented **targets** to monitor progresses overtime and track effectiveness of its **actions** in relation to material sustainability **impacts** and **risks** if such targets have been implemented.
17. If the undertaking has implemented targets with regard to each material sustainability matter, it shall disclose the following:
 - (a) the relationship of the target to the relevant **policy** objectives;
 - (b) the defined level of ambition (quantitative and/or qualitative, depending on the nature of the target) to be achieved, including, where applicable, whether the target is absolute or relative and in which unit it is measured;
 - (c) the scope of the target (operations, upstream and/or downstream value chain, subsidiaries, geographical boundaries or activities);
 - (d) if applicable, the baseline value and base year from which progress is measured;
 - (e) the timeframe to achieve the target;
 - (f) the methodologies and significant assumptions used to define targets, including, where applicable, the selected scenario, data sources, alignment with science-based methodologies, and national, EU or international policy goals;
 - (g) any changes in targets or underlying methodologies and assumptions adopted within the defined time horizon, together with an explanation of the rationale for those changes and their effect on comparability; and
 - (h) the overall progress towards the defined target.
18. When disclosing information according to paragraph 17, the undertaking shall consider publicly claimed **targets** or targets communicated to investors or lenders.
19. The **targets** may cover the undertaking's own operations and/or **value chain**.
20. When disclosing the information required by paragraph 17, the undertaking shall apply the requirements set out in the topic-specific Application Requirements IR 4.
21. In particular, the undertaking shall include the datapoints derived from EU legislation specified in AR 117.

Appendix A: Application Requirements – Section 3 Policies, Actions and Targets

Disclosure Requirement 11 (IR-3) – Policies and actions in relation to sustainability matters

- AR 1. In disclosing information on **policies** and **actions**, the undertaking may include such a disclosure in a centralised section or divide and present the relevant disclosure in each sustainability topical section.
- AR 2. A single **policy** may apply to several material **sustainability matters**, including matters addressed by more than one topical section of this [draft] Standard. For example, if a single policy covers both an environmental matter and a social matter, the undertaking may report on the policy in the environmental section of its **sustainability statement**. In this case, in the social section it shall cross-reference the environmental section where the policy is reported. Equally, a policy may be reported in the social section by cross-referencing the environmental section.
- AR 3. SMEs and undertakings with less resources may have few (or no) **policies** formalised in written documents, but this does not necessarily mean they do not have policies to report on.
- If the undertaking has not formalised a policy but has implemented **actions** or defined **targets** through which the undertaking seeks to address material **impacts** and **risks**, it shall disclose them as actions and/or targets.
- As an illustration, consider the following:
- (a) if the undertaking has implemented actions for **employee** management's sake (i.e., to ensure **equal treatment** or a health and safety management system) but has not formalised a policy, it describes the actions undertaken to address the related material impacts and risks. Furthermore, the undertaking, if applicable, discloses which organisational level has been assigned responsibility for implementing these actions or action plans (i.e., department, management, top management, etc.), and
 - (b) if the undertaking has defined targets in relation to material impacts or risks (i.e., to reduce emissions, **water consumption**, etc.) but has not formalised a policy, it describes these targets and, if applicable, the department or person in charge of measuring and reporting on the progress achieved towards these targets.
- AR 4. Key **actions** are those actions that materially contribute to achieving the undertaking's objectives in addressing material **impacts** and **risks**. For reasons of understandability, key actions may be aggregated where appropriate.
- AR 5. Information on resource allocation may be presented in the form of a table and broken down, across the relevant time horizons, by capital expenditure and operating expenditure, by resources applied in the current reporting year, and by the planned allocation of resources over specific time horizons.
- AR 6. When disclosing the information required under paragraphs 3 and 4 of this Section on a material sustainability topic, as a result of its **materiality** assessment the undertaking shall disclose additional topic-specific information as reported in the table below.

ID	Application requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
1	For own workforce, value chain workers, affected communities and consumers and end-users, the undertaking shall describe those processes and mechanisms to monitor compliance with the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work and the OECD Guidelines for Multinational enterprises.	Own workforce Workers in the value chain Affected communities Consumers and end-users	P	SFDR Tab. 1 KPI 11
2	For affected communities and consumers and end-users, the undertaking shall disclose whether and how its policies are aligned with relevant internationally recognised instruments, including United Nations (UN) Guiding Principles on Business and Human Rights. The undertaking shall also disclose the extent to which cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises that involve affected communities and consumers and end-users have been reported in its downstream value chain and, if applicable, an indication of the nature of such cases.	Affected communities Consumers and end-users	P	SFDR Tab. 1 KPI 10 Benchmark Reg. Sections 1 and 2 of Annex 2
3	The undertaking shall disclose if it has adopted policies related to water management.	Water and marine resources	P	SFDR Tab. 2 KPI 7
4	If at least one of the sites of the undertaking is located in an area of high-water stress and it is not covered by a policy, the undertaking shall state this to be the case and provide reasons for not having adopted such a policy. The undertaking may disclose a timeframe in which it aims to adopt such a policy.	Water and marine resources	P	SFDR Tab. 2 KPI 8
5	The undertaking shall disclose whether it has adopted sustainable land/agriculture practices or policies.	Biodiversity and ecosystems	P	SFDR Tab. 2 KPI 11
6	The undertaking shall specifically disclose whether it has adopted a biodiversity and ecosystem protection policy covering operational sites owned, leased, or managed in or near a biodiversity sensitive area.	Biodiversity and ecosystems	P	SFDR Tab. 2 KPI 14.2

ID	Application requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
7	The undertaking shall disclose whether it has adopted policies to address deforestation .	biodiversity and ecosystems	P	SFDR Tab. 2 KPI 15
8	The undertaking shall disclose whether it has adopted policies or practices related to sustainable oceans and seas	Water and marine resources Biodiversity and ecosystems	P	SFDR Tab. 2 KPI 12
9	The undertaking shall disclose whether or not it has a grievance/complaints handling mechanism related to employee matters. ¹	Own workforce	P	SFDR Tab. 3 KPI 5
10	The undertaking shall state whether it has a workplace accident prevention policy or management system.	Own workforce	P	SFDR Tab. 3 KPI 1
11	The undertaking shall disclose whether and how its policies with regard to its own workforce are aligned with relevant internationally recognised instruments, including the UN Guiding Principles on Business and Human Rights.	Own workforce	P	Benchmark Reg. section 1 and 2 of Annex 2
12	The undertaking shall disclose whether and how its policies with regard to value chain workers are aligned with internationally recognised instruments relevant to value chain workers, including the United Nations (UN) Guiding Principles on Business and Human Rights. The undertaking shall also disclose the extent to which cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises that involve value chain workers have been reported in its upstream and downstream value chain and, if applicable, an indication of the nature of such cases.	Workers in the value chain	P	SFDR Tab. 1 KPI 10 Benchmark Reg. section 1 and 2 of Annex 2

¹ The information regarding Processes to remediate negative impacts and channels for own workforce to raise concerns has to be reported only once by the undertaking.

ID	Application requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
13	For value chain workers, <i>affected communities</i> and consumers and end-users, the undertaking shall disclose whether severe human rights issues and incidents connected to its upstream and downstream value chain have been reported and, if applicable, disclose these.	Workers in the value chain Affected communities Consumers and end-users	A	SFDR Tab. 3, KPI 14
14	The undertaking shall also state whether it has a supplier code of conduct.	Workers in the value chain	P	SFDR Tab. 3 KPI 4
15	The undertaking shall state whether its policies in relation to own workforce and value chain workers explicitly address trafficking in human beings, forced labour or compulsory labour and child labour	Own workforce Workers in the value chain	P	SFDR Tab. 3 KPI 11
16	The undertaking shall describe its human rights policy commitments	Own workforce Workers in the value chain Affected communities Consumers and end-users	P	SFDR Tab. 3 KPI 9
17	Where the undertaking has no policies on the protection of whistle-blowers, it shall state this and whether it has plans to implement them and the timetable for implementation.	Business conduct	P	SFDR Tab. 3 KPI 6
18	Where the undertaking has no policies on anti-corruption or anti-bribery consistent with the United Nations Convention against Corruption, it shall state this and whether it has plans to implement them and the timetable for implementation.	Business conduct	P	SFDR Tab. 3 KPI 15

ID	Application requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
19	The undertaking shall disclose its transition plan for climate change mitigation .	Climate change	A	Climate Law Benchmark Reg.
20	If the undertaking has set a transition plan, it shall disclose whether or not it is excluded from the EU Paris-aligned Benchmarks.	Climate change	A	EBA Pillar 3 Benchmark Reg.

AR 7. With reference to paragraph 3 of this Section, and in addition to the information required by the table of AR. 6, as a result of its **materiality** assessment the undertaking shall in connection to a material sustainability topic disclose additional topic-specific information as defined in the following paragraphs.

ENVIRONMENT

Policies and actions for climate change

AR 8. The undertaking shall indicate whether and how its **policies** address the following areas:

- (a) **climate change mitigation**;
- (b) **climate change adaptation**;
- (c) energy efficiency;
- (d) **renewable energy** deployment; and/or
- (e) other areas.

Guidance / Additional information for Policies on Climate change

AR 9. **Policies** related to **climate change mitigation** address the management of the undertaking's **GHG emissions**, GHG removals and **transition risks** over different time horizons in its own operations and/or in the upstream and downstream **value chain**.

AR 10. **Policies** related to **climate change adaptation** address the management of the undertaking's physical climate **risks** and climate change adaptation-related **transition risks**.

Actions for climate change

AR 11. When listing **key actions** taken in the reporting year and planned for the future, the undertaking shall present the **climate change mitigation** actions by decarbonisation lever including the nature-based solutions (i.e., energy efficiency, electrification, fuel switching, use of **renewable energy**, products change, and supply-chain decarbonisation).

AR 12. When describing the outcome of the **actions** for **climate change mitigation**, the undertaking shall include the achieved and expected **GHG emission reductions**.

AR 13. When disclosing its **climate change adaptation** and **mitigation actions**, the undertaking shall relate significant monetary amounts of CapEx and OpEx that are required to implement the actions to:

- (c) the relevant line items or notes in the financial statements;

- (d) the key performance indicators required under Commission Delegated Regulation (EU) 2020/852; and,
 - (e) if applicable, to the CapEx plan required by Commission Delegated regulation (EU) 2021/2178.
- AR 14. When disclosing information on resources, if applicable, the undertaking shall only disclose the significant OpEx and CapEx amounts required for the implementation of the **actions** related to climate change, as the purpose of this information is to demonstrate the credibility of its actions rather than to reconcile the disclosed amounts to the financial statements. The disclosed CapEx and OpEx amounts shall be the additions made to both tangible and intangible assets during the current financial year as well as the planned additions for future periods when the implementation of the actions is expected. The disclosed amounts shall only be the incremental financial investments directly contributing to the achievement of the undertaking's **targets**.
- AR 15. The amounts of OpEx and CapEx required for the implementation of the **actions** related to climate change shall be consistent with the key performance indicators (CapEx and OpEx being the key performance indicators) and, if applicable, the CapEx plan required by Commission Delegated Regulation (EU) 2021/2178. The undertaking shall account for any potential discrepancies between the significant OpEx and CapEx amounts disclosed under this Standard and the key performance indicators disclosed under Commission Delegated Regulation (EU) 2021/2178 due to, for instance, the disclosure of non-eligible economic activities as defined in that delegated regulation. The undertaking may structure its actions by economic activity to compare its OpEx and CapEx and, if applicable, its OpEx and/or CapEx plans, to its Taxonomy-aligned key performance indicators.
- AR 16. If the undertaking has set a **transition plan for climate change mitigation**, it shall include:
- (a) on **GHG emission reduction targets** (as required by Disclosure Requirement E1-4), an explanation of how the undertaking's targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement;
 - (b) for undertakings with economic activities that are covered by delegated regulations on climate adaptation or mitigation under the Taxonomy Regulation, an explanation of any objective or plans (CapEX, CapEx plans, OpEx) that the undertaking has for aligning its economic activities (revenues, CapEx, OpEx) with the criteria established in those delegated regulations; and
 - (c) if applicable, a disclosure of significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities.

Policies and actions for pollution

- AR 17. When describing its policies on **pollution**, the undertaking shall indicate whether and how its **policies** address the following areas where material:
- (a) mitigating negative **impacts** related to pollution of air, water and **soil**, including prevention and control;
 - (b) substituting and minimising the use of **substances of concern** and phasing out **substances of very high concern**, in particular for non-essential societal use and in **consumer** products; and
 - (c) avoiding **incidents** and emergency situations and, if and when they occur, controlling and limiting their impact on people and the environment.
- AR 18. When describing its **policies** on **pollution**, the undertaking shall consider including information on the **pollutant(s)** or **substance(s)** covered.

Guidance / Additional information for Policies on Pollution

- AR 19. When disclosing information on policies related to **pollution**, the undertaking may include contextual information on the relation between its implemented policies and how they may contribute to the EU Action Plan 'Towards a Zero Pollution for Air, Water and Soil' with, for instance, elements on
- (a) how it is or may be affected by the **targets** and measures of the EU Action Plan and the revision of existing directives (e.g., the Industrial Emissions Directive) and
 - (b) how it intends to reduce its pollution footprint to contribute to these targets.

Policies and actions for water and marine resources

- AR 20. When disclosing the information on **policies** related to water and **marine resources**, the undertaking shall indicate, where material, whether and how its **policies** address:
- (a) water management, including:
 - i. the use and sourcing of water and marine resources in its own operations;
 - ii. water treatment as a step towards more sustainable sourcing of water; and
 - iii. the prevention and abatement of water **pollution** resulting from its activities;
 - (b) product and service design in view of addressing water-related issues and the preservation of marine resources; and
 - (c) the commitment to reduce material **water consumption** in **areas at water risk** in its own operations along the upstream and downstream **value chain**.

Actions for water and marine resources

- AR 21. When disclosing information on **actions** related to water and **marine resources**, the undertaking shall specify actions and resources in relation to **areas at water risk**, including **areas of high-water stress**.

Guidance / Additional information for Actions on Water and marine resources

- AR 22. In the case of collective action or action plans involving other **stakeholders**, the undertaking may provide information on those specific collective **actions** and the related involved parties.

Policies and actions for biodiversity and ecosystems

Guidance / Additional information for Policies on Biodiversity and ecosystems

- AR 23. When disclosing the information on **policies** related to **biodiversity** and **ecosystems**, the undertaking may disclose whether the policy allows the undertaking to:
- (a) avoid its negative **impacts** on **biodiversity** and **ecosystems** in its own operations and related upstream and downstream **value chain**;
 - (b) reduce and minimise its negative impacts that cannot be avoided on biodiversity and ecosystems in its operations and throughout the upstream and downstream value chain;
 - (c) restore and rehabilitate degraded ecosystems or restore cleared ecosystems following exposure to impacts that cannot be completely avoided and/or minimised; and
 - (d) mitigate its material **biodiversity loss** drivers.

AR 24. When disclosing **policies** related to social consequences of **biodiversity** and **ecosystems**, the undertaking may notably refer to the Nagoya Protocol and to the Convention for Biological Diversity (CBD)

Actions for biodiversity and ecosystems

AR 25. When disclosing the information on **actions** related to **biodiversity** and **ecosystems**, the undertaking:

- i. shall disclose whether it used **biodiversity** offsets in its action plans and, if so, provide a description of the offsets used, including area, type, the quality criteria applied and the standards that the biodiversity offsets comply with; and
- ii. shall describe whether and how it has incorporated **nature-based solutions** into biodiversity and **ecosystems**-related actions;

Guidance / Additional information for Actions on Biodiversity and ecosystems

AR 26. In addition, when disclosing the information on **actions** related to biodiversity and **ecosystems**, the undertaking may disclose how it has applied the mitigation hierarchy with regard to its actions (avoidance, minimisation, restoration/rehabilitation, and compensation or offsets).

AR 27. The undertaking may disclose whether it considers an “avoidance” action plan. An avoidance action plan prevents damages before they take place. An example of avoidance is altering the **biodiversity** and ecosystem footprint of a project to avoid destruction of natural **habitat** on the **site** and/or establishing set-asides where priority biodiversity values are present and will be conserved.

Policies and actions for resource use and circular economy

Policies for resource use and circular economy

AR 28. When disclosing the information on **policies** related to resource use and **circular economy**, the undertaking shall indicate, where material, whether and how its policies address the following matters:

- (a) transitioning away from use of virgin resources, including relative increases in use of secondary (recycled) resources; and
- (b) sustainable sourcing and use of renewable resources.

Guidance / Additional information for Policies on Resource use and circular economy

AR 29. When disclosing the information on **policies** related to resource use and **circular economy**, the undertaking shall consider whether and how its policies address:

- (a) the **waste hierarchy**: (i) prevention; (ii) preparation for re-use; (iii) **recycling**; (iv) other **recovery**, e.g., energy recovery; and (v) disposal. In this context, **waste** treatment cannot be considered as recovery; and
- (b) the prioritisation of the avoidance or minimisation of waste (be it through re-using, repairing, refurbishing, remanufacturing and repurposing) over waste treatment

strategies (recycling). The concepts of eco-design,² waste as a resource and post-**consumer** waste (at the end of a consumer-product lifecycle) should also be taken in consideration.

Guidance / Additional information for Actions on Resource use and circular economy

- AR 30. When disclosing the information on **actions** related to **resource use** and **circular economy**, the undertaking may specify whether and how the actions and resources cover:
- (a) higher levels of resource efficiency in use of technical and biological materials and water, particularly in relation to critical **raw materials** and rare earths as listed in the Raw Materials Information System;
 - (b) higher rates of use of secondary raw materials (recyclates);
 - (c) the application of circular design, leading to increased product **durability** and optimization of use as well as higher rates of **reuse**, repair, refurbishing, remanufacturing, repurposing and **recycling**;
 - (d) the application of circular business practices such as (i) value retention **actions** (maintenance, repair, refurbishing, remanufacturing, component harvesting, upgrading and reverse logistics, closed loop systems, and second-hand retailing), (ii) value maximisation actions (product-service systems, collaborative and sharing economy business models), (iii) end-of-life actions (recycling, upcycling, extended producer responsibility), and (iv) systems efficiency actions (industrial symbiosis);
 - (e) actions taken to prevent **waste** generation in the undertaking's upstream and downstream **value chain**; and
 - (f) the optimisation of **waste management** in line with the **waste hierarchy**.

SOCIAL

Policies related to own workforce

- AR 31. When describing its **policies** on **own workforce**, for those matters that are material the undertaking shall disclose its general approach to:
- (a) engagement with people in its own workforce (refer to AR 33 to AR 34) and
 - (b) measures to provide and/or enable **remedy** for human rights **impacts** (refer to AR 42 to AR 44).
- AR 32. If the undertaking has adopted specific policies aimed at the elimination of **discrimination**, it shall disclose this. In addition, it may disclose which grounds for discrimination are covered (racial and ethnic origin, colour, sex, sexual orientation, gender identity, disability, age, religion, political opinion, national extraction or social origin or other forms of discrimination covered by EU regulation and national law).

Processes for engaging with own workforce and workers' representatives on impacts

- AR 33. If the undertaking engages with its **own workforce**, when disclosing information under AR 30(a) the undertaking shall disclose:

² As established by the Directive 2009/125/EC.

- (a) its general processes for engaging, where relevant, with people in its own workforce and their representatives on actual and potential material **impacts** on them; and
- (b) whether and how the perspectives of its own workforce inform its decisions or activities aimed at managing the actual and potential material impacts on them. This shall include, where relevant, an explanation of:
 - i. whether engagement occurs directly with the undertaking's own workforce or **workers' representatives**;
 - ii. the stage(s) at which engagement occurs as well as the type of engagement and frequency of the engagement; and,
 - iii. where applicable, any agreements that the undertaking has with **workers' representatives** related to the respect of human rights of its own workforce.

AR 34. If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with its **own workforce**, it may disclose a timeframe in which it aims to have such a process in place.

Guidance on 'processes for engaging with own workforce and workers' representatives on impacts'

AR 35. When preparing the disclosures described in AR 33(b), the following may be considered:

- (a) examples of stages at which engagement occurs, which are (i) determining the approach to mitigation and (ii) evaluating the effectiveness of mitigation;
- (b) for type of engagement, these could be participation, consultation and/or information; and
- (c) for the frequency of the engagement, information may be provided on whether engagement occurs on a regular basis or at certain points in a project or business process (for example, when a new harvest season begins or a new production line is opened), whether it occurs in response to legal requirements and/or in response to **stakeholder** requests and whether the result of the engagement is being integrated into the undertaking's decision-making processes.

AR 36. To illustrate how the perspectives of its **own workforce** have informed specific decisions or activities, the undertaking may provide examples from the current reporting period.

AR 37. If the undertaking has agreements with national, European or international trade unions or with works councils related to the rights of people in its **own workforce**, this can be disclosed to illustrate how the agreement enables the undertaking to gain insight into the perspectives of such people.

AR 38. The undertaking may provide examples from the reporting period to illustrate how the perspectives of its **own workforce** and **workers' representatives** have informed specific decisions or activities of the undertaking.

AR 39. The undertaking shall consider the following aspects when fulfilling this Disclosure Requirement:

- (a) the type of engagement (for example, information, consultation or participation) and its frequency (for example, ongoing, quarterly, annually);
- (b) how feedback is recorded and integrated into decision-making and how people in the workforce are informed of the way in which their feedback has influenced decisions;
- (c) whether engagement activities take place at the organisational level or at a lower level, such as at the **site** or project level, and in the latter case how information from engagement activities is centralised;

- (d) the resources (for example, financial or human resources) allocated to engagement; and
 - (e) how it engages with people in its workforce and **workers' representatives** on the **impacts** on its **own workforce** that may arise from reducing carbon **emissions** and transitioning to greener and climate-neutral operations, in particular restructuring, employment loss or creation, **training** and upskilling/reskilling, gender and social equity, and health and safety.
- AR 40. The undertaking may also disclose the following information in relation to paragraph AR 32 on diversity:
- (a) how it engages with at-risk persons or persons in vulnerable situations (for example, whether it takes specific approaches and gives special attention to potential barriers);
 - (b) how it takes into account potential barriers to engagement with people in its workforce (for example, language and cultural differences, gender and power imbalances, or divisions within a community or group);
 - (c) how it provides people in its workforce with information that is understandable and accessible through appropriate communication channels;
 - (d) any conflicting interests that have arisen among its workforce and how the undertaking has resolved these conflicting interests; and
 - (e) how it seeks to respect the human rights of all **stakeholders** engaged, for example, their rights to privacy, freedom of expression and peaceful assembly and protest.
- AR 41. The undertaking may also report information about the effectiveness of processes for engaging with its **own workforce** from previous reporting periods. This applies in cases where the undertaking has assessed the effectiveness of these processes or derived lessons during the current reporting period. Processes used to track such effectiveness can include internal or external auditing or verification, impact assessments, measurement systems, **stakeholder** feedback, **grievance mechanisms**, external performance ratings and benchmarking.

Processes for remediating negative impacts and channels for own workforce to raise concerns

- AR 42. If the undertaking has in place processes to provide for or cooperate in the **remediation** of negative **impacts** on people in its **own workforce** that the undertaking is connected with, as well as channels available for its own workforce to raise concerns and have them addressed, when disclosing information under AR 31(b) it shall disclose:
- (a) its approach to and processes for providing or contributing to **remedy** where it has caused or contributed to a material negative impact on people in its own workforce, including whether and how the undertaking assesses the provided remedy to be effective; and
 - (b) any channels it has in place for its own workforce to raise their concerns or needs.
- AR 43. The undertaking may disclose whether and how it assesses that people in its **own workforce** are aware of and trust these structures or processes as a way of raising their concerns or needs and have them addressed. In addition, the undertaking shall disclose whether the undertaking has policies in place for the protection of individuals that use them against retaliation.
- AR 44. If the undertaking cannot disclose the above required information because it has not implemented those processes, it may disclose a timeframe in which it aims to put such processes in place.

Guidance on 'processes for remediating negative impacts and channels for own workforce to raise concerns'

- AR 45. In fulfilling the requirements set out in AR 42 through AR 44 the undertaking may be guided by the content of the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct focused on **remediation** and **grievance mechanisms**.
- AR 46. Channels for raising concerns or needs include **grievance mechanisms**, hotlines, trade unions (where people in the workforce are unionised), works councils, dialogue processes or other means through which the undertaking's **own workforce** or **workers' representatives** can raise concerns about **impacts** or explain needs that they would like the undertaking to address. This could include both channels provided by the undertaking directly and channels provided by the entities where their own workforce is working in addition to any other mechanisms an undertaking may use to gain insight into the management of impacts on its own workforce, **value chain** workers, **affected communities**, consumers and **end-users**, such as compliance audits. Where the undertaking is relying solely on information about the existence of such channels provided by its **business relationships** to answer this requirement, it may state that.
- AR 47. These channels could be provided by an industry-wide initiative in which the undertaking takes part of or by other third-party mechanisms such as the ones operated by the government or NGOs. The undertaking may disclose whether these are accessible to all of its **own workforce** or **workers' representatives** (or, in their absence, individuals or organisations acting on their behalf or who are otherwise in a position to be aware of negative **impacts**).
- AR 48. The undertaking may disclose the processes through which it supports or requires the availability of such channels in the workplace of its **own workforce**.
- AR 49. In explaining whether and how the undertaking knows that people in its **own workforce** are aware of and trust any of these channels, the undertaking may provide relevant and reliable data about the effectiveness of these channels from the perspective of the people concerned. Examples of such sources of information include surveys of people in the undertaking's workforce that have used such channels and their levels of satisfaction with the process and outcomes. To illustrate the usage level of such channels, the undertaking may disclose the number of complaints received from consumers and/or **end-users** during the reporting period.
- AR 50. The undertaking may disclose how it tracks and monitors the issues that are raised and addressed and how it ensures the effectiveness of the channels, including through the involvement of **stakeholders** who are intended **users**.
- AR 51. In describing the effectiveness of channels for its **own workforce** and **workers' representatives** to raise concerns, the undertaking may be guided by the following questions based on the 'effectiveness criteria for non-judicial **grievance mechanisms**' as laid out in the UN Guiding Principles on Business and Human Rights, in particular principle 31. The considerations below may be applied to individual channels or to a collective system of channels.
- (a) Do the channels have legitimacy by providing appropriate accountability for their fair conduct and building stakeholder trust?
 - (b) Are the channels known and accessible to **stakeholders**?
 - (c) Do the channels have clear and known procedures with indicative timeframes?
 - (d) Do the channels ensure reasonable access for stakeholders to sources of information, advice and expertise?

- (e) Do the channels offer transparency by providing sufficient information to complainants and, where applicable, to meet any public interest?
- (f) Do outcomes achieved through the channels accord with internationally recognised human rights?
- (g) Does the undertaking identify insights in the channels that support continuous learning for both improving the channels and preventing future **impacts**?
- (h) Does the undertaking focus on engaging in dialogue with complainants as a means to reaching agreed solutions rather than seeking to unilaterally determine the outcome?

The undertaking shall consider whether and how people in its own workforce that may be affected and their **workers' representatives** are able to access channels at the level of the undertaking they are employed in, or contracted to work for, in relation to each material impact. Relevant channels may include hotlines, trade unions (where people in the workforce are unionised), works councils or other **grievance mechanisms** operated by the relevant undertaking or by a third party.

Actions on material impacts on own workforce

AR 52. When disclosing information on **actions** for material **impacts** related to **own workforce**, the undertaking shall describe:

- (a) actions taken, planned or underway to prevent or mitigate material negative impacts on its own workforce and
- (b) processes through which it identifies what **actions** are needed and appropriate in response to a particular actual or potential negative **impact** on its own workforce.

Additional guidance for actions on own workforce

AR 53. The undertaking may disclose whether and how it ensures that its own practices do not cause or contribute to material negative **impacts** on **own workforce**, including, where relevant, its practices in relation to procurement, sales and data use. This may include disclosing what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

Guidance / Additional information for Policies related to value chain workers

AR 54. When describing its **policies** on **value chain workers**, the undertaking shall consider focusing on those matters that are material in relation to, as well as its general approach to:

- (a) engagement with value chain workers (refer to AR 55 and AR 56) and
- (b) measures to provide and/or enable **remedy** for human rights **impacts** (refer to AR 59 to AR 61).

Processes for engaging with value chain workers on impacts

AR 55. If the undertaking engages with **value chain workers** and their representatives, when disclosing information under AR 54(a) the undertaking shall disclose:

- (a) its general processes for engaging, where relevant, with workers in the **value chain** and their representatives on actual and potential material **impacts** on them; and
- (b) whether and how the perspectives of **value chain workers** inform its decisions or activities aimed at managing the actual and potential material impacts on them. This shall include, where relevant, an explanation of

- i. whether engagement occurs with value chain workers or their **legitimate representatives** directly or with **credible proxies** that have insight into their situation;
- ii. the stage(s) at which engagement occurs and the type of engagement and frequency of the engagement; and,
- iii. where applicable, any agreements that the undertaking has with global union federations related to the respect of human rights of workers in the value chain, including their right to bargain collectively.

AR 56. If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with **value chain workers**, it may disclose a timeframe in which it aims to have such a process in place.

Guidance on ‘processes for engaging with value chain workers on impacts’

AR 57. When preparing the disclosures described in AR 55(b), the following illustrations may be considered:

- (a) examples of stages at which engagement occurs, which are (i) determining the approach to mitigation and (ii) evaluating the effectiveness of mitigation;
- (b) for the type of engagement, these could be participation, consultation and/or information; and
- (c) for the frequency of the engagement, information may be provided on whether engagement occurs on a regular basis at certain points in a project or business process (for example, when a new harvest season begins or a new production line is opened), whether it occurs in response to legal requirements and/or in response to **stakeholder** requests and whether the result of the engagement is being integrated into the undertaking’s decision-making processes.

AR 58. To illustrate how the perspectives of **value chain workers** have informed specific decisions or activities, the undertaking may provide examples from the current reporting period.

Processes for remediating negative impacts and channels for value chain workers to raise concerns

AR 59. If the undertaking has in place processes to provide for or cooperate in the **remediation** of negative **impacts** on **value chain workers** that the undertaking is connected with as well as channels available to value chain workers to raise concerns and have them addressed, when disclosing information under AR 54(b) it shall report:

- (a) its approach to and processes for providing or contributing to **remedy** where where it has caused or contributed to a material negative impact on **value chain workers**, including whether and how the undertaking assesses the remedy provided to be effective; and
- (b) any channels it has in place for **value chain workers** to raise their concerns or needs.

AR 60. The undertaking may disclose whether and how it assesses that **value chain workers** are aware of and trust these structures or processes as a way of raising their concerns or needs and have them addressed. In addition, the undertaking shall disclose whether the undertaking has policies in place regarding the protection of individuals that use them against retaliation.

AR 61. If the undertaking cannot disclose the above required information because it has not implemented those processes, it may disclose a timeframe in which it aims to have such processes in place.

Guidance on 'processes for remediating negative impacts and channels for value chain workers to raise concerns'

- AR 62. In fulfilling the requirements set out in AR 59 to AR 61, the undertaking may be guided by the content of the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct focused on **remediation** and **grievance mechanisms**.
- AR 63. Channels for raising concerns or needs include **grievance mechanisms**, hotlines, trade unions (where workers are unionised), dialogue processes or other means through which the **value chain workers** or their **legitimate representatives** can raise concerns about **impacts** or explain the needs that they would like the undertaking to address. This could include both channels provided by the undertaking directly and channels provided by the entities where value chain workers are working in addition to any other mechanisms an undertaking may use to gain insight into the management of impacts on workers, such as compliance audits. Where the undertaking is relying solely on information about the existence of such channels provided by its **business relationships** to answer this requirement, it may state that.
- AR 64. These channels could be provided by an industry-wide initiative in which the undertaking takes part of or by other third-party mechanisms, such as the ones operated by the government or NGOs. The undertaking may disclose whether these are accessible to all workers who may be potentially or actually materially impacted by the undertaking, to individuals or organisations acting on their behalf or who are otherwise in the position to be aware of negative **impacts**.
- AR 65. The undertaking may disclose its processes through which it supports or requires the availability of such channels in the workplace of **value chain workers**.
- AR 66. In disclosing whether and how the undertaking knows that **value chain workers** are aware of and trust any of these channels, the undertaking may provide relevant and reliable data about the effectiveness of these channels from the perspective of the people concerned. Examples of such sources of information are surveys of value chain workers that have used such channels and their levels of satisfaction with their respective process and outcomes.
- AR 67. The undertaking may disclose how it tracks and monitors the issues that are raised and addressed and how it ensures the effectiveness of the channels, including through the involvement of **stakeholders** who are intended **users**.
- AR 68. In describing the effectiveness of channels for **value chain workers** to raise concerns, the undertaking may be guided by the following questions, based on the 'effectiveness criteria for non-judicial **grievance mechanisms**' as laid out in the UN Guiding Principles on Business and Human Rights, in particular principle 31. The considerations below may be applied to individual channels or to a collective system of channels.
- (a) Do the channels have legitimacy by providing appropriate accountability for their fair conduct and building stakeholder trust?
 - (b) Are the channels known and accessible to **stakeholders**?
 - (c) Do the channels have clear and known procedures with indicative timeframes?
 - (d) Do the channels ensure reasonable access for stakeholders to sources of information, advice and expertise?
 - (e) Do the channels offer transparency by providing sufficient information to complainants and, where applicable, to meet any public interest?
 - (f) Do the outcomes achieved through the channels accord with internationally recognised human rights?

- (g) Does the undertaking identify insights in the channels that support continuous learning in both improving the channels and preventing future **impacts**?
 - (h) Does the undertaking focus on engaging in dialogue with complainants as a means to reaching agreed solutions rather than seeking to unilaterally determine the outcome?
- AR 68. To provide greater insight into the information covered in this Disclosure Requirement regarding workers in the **value chain**, the undertaking may explain whether and how **value chain workers** that may be affected are able to access channels at the level of the undertaking they are employed by or contracted to work for in relation to each material impact.
- AR 69. In relation to the protection of individuals that use mechanisms against retaliation, the undertaking may describe whether it treats grievances confidentially and with respect for the rights of privacy and data protection and whether the mechanisms can be used anonymously (for example, through representation by a third party).

Actions on material impacts on value chain workers

- AR 70. When disclosing information on **actions** on material **impacts** related to **value chain workers**, the undertaking shall describe:
- (a) the actions taken, planned or underway to prevent or mitigate material negative **impacts** on **value chain workers** and
 - (b) the processes through which it identifies what action is needed and appropriate in response to a particular actual or potential negative impact on **value chain workers**.
- AR 71. The undertaking shall disclose whether and how it takes action to avoid causing or contributing to material negative **impacts** on **value chain workers** through its own practices, including, where relevant, in relation to procurement, sales and data use. This may include disclosing what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

Policies related to affected communities

- AR 72. The undertaking shall disclose any particular **policy** provisions for preventing and addressing **impacts** on **indigenous peoples**.

Guidance / Additional information for Policies related to affected communities

- AR 73. When describing its **policies** on **affected communities**, the undertaking shall consider focusing on those matters that are material in relation to, as well as its general approach to:
- (a) engagement with affected communities (refer to AR 74 to AR 80) and
 - (b) measures for providing and/or enabling **remedy** for human rights **impacts** (refer to AR 79 through AR 81).

Processes for engaging with affected communities on impacts

- AR 74. If the undertaking engages with **affected communities** and their representatives, when disclosing information under AR 70(a) the undertaking shall disclose:
- (a) its general processes for engaging, where relevant, with affected communities and their representatives on actual and potential material **impacts** on them; and

- (b) whether and how the perspectives of affected communities inform its decisions or activities aimed at managing the actual and potential material impacts on them. This shall include, where relevant, an explanation of:
 - i. whether engagement occurs with affected communities, their **legitimate representatives** directly or with **credible proxies** that have insight into their situation; and
 - ii. the stage(s) at which engagement occurs, the type of engagement and frequency of the engagement.

AR 75. Where **affected communities** are **indigenous peoples**, the undertaking shall also disclose how it takes into account and ensures respect of their particular rights in its **stakeholder engagement** approach, including their right to **free, prior and informed consent** with regard to their cultural, intellectual, religious and spiritual property; activities affecting their lands and territories; and legislative or administrative measures that affect them. In particular, where engagement occurs with indigenous peoples the undertaking shall also disclose whether and how **indigenous peoples** have been consulted on the mode and parameters of the engagement (for example, in designing the agenda, nature and timeliness of the engagement).

AR 76. If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with **affected communities**, it may disclose a timeframe in which it aims to have such a process in place.

Guidance on 'processes for engaging with affected communities on impacts'

AR 77. When preparing the disclosures described in AR 74(b), the following may be considered:

- (a) examples of stages in which engagement occurs, which are (i) determining the approach to mitigation and (ii) evaluating the effectiveness of mitigation;
- (b) for type of engagement, these could be participation, consultation and/or information; and
- (c) for the frequency of the engagement, information may be provided on whether engagement occurs on a regular basis at certain points in a project or business process (for example, when a new harvest season begins or a new production line is opened), whether it occurs in response to legal requirements and/or in response to **stakeholder** requests and whether the result of the engagement is being integrated into the undertaking's decision-making processes.

AR 78. To illustrate how the perspectives of **affected communities** have informed specific decisions or activities, the undertaking may provide examples from the current reporting period.

AR 79. The undertaking shall consider how the engagement includes a good faith negotiation with affected **indigenous peoples** to obtain their **free, prior and informed consent** where the undertaking affects the lands, territories or resources that indigenous peoples customarily own, occupy or otherwise use; relocates them from land or territories subject to traditional ownership or under customary use or occupation; or affects or exploits their cultural, intellectual, religious or spiritual property.

AR 80. Explanations of how the undertaking takes into account and ensures respect of the particular right of **indigenous peoples** to **free, prior and informed consent** may include information about processes for consulting with indigenous peoples to obtain their free, prior and informed consent.

Processes for remediating negative impacts and channels for affected communities to raise concerns

- AR 81. If the undertaking has in place processes to provide for or cooperate in the **remediation** of negative **impacts** on **affected communities** that the undertaking is connected with as well as channels available to them to raise concerns and have them addressed, when disclosing information under AR 70(b) it shall disclose:
- (a) its approach to and processes for providing or contributing to **remedy** where it has caused or contributed to a material negative **impact** on affected communities, including whether and how the undertaking assesses the provided remedy to be effective; and
 - (b) any channels it has in place for affected communities to raise their concerns or voice their needs.
- AR 82. The undertaking may disclose whether and how it assesses that **affected communities** are aware of and trust these structures or processes as a way of raising their concerns or needs and have them addressed. In addition, the undertaking shall disclose whether the undertaking has policies in place for the protection of individuals that use them against retaliation.
- AR 83. If the undertaking cannot disclose the above required information because it has not implemented those processes, it may disclose a timeframe in which it aims to have such processes in place.

Guidance on 'processes for remediating negative impacts and channels for affected communities to raise concerns'

- AR 84. In fulfilling the requirements set out in AR 81 to AR 83, the undertaking may be guided by the content of the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct focused on **remediation** and **grievance mechanisms**.
- AR 85. Channels for raising concerns or needs include **grievance mechanisms**, hotlines, dialogue processes or other means through which **affected communities** or their legitimate representatives can raise concerns about **impacts** or explain needs that they would like the undertaking to address. This could include both channels provided by the undertaking directly in addition to any other mechanisms an undertaking may use to gain insight into the management of impacts on communities, such as compliance audits. Where the undertaking is relying solely on information about the existence of such channels provided by its **business relationships** to answer this requirement, it may state that.
- AR 86. To provide greater insight into the information covered in this Disclosure Requirement regarding **affected communities**, the undertaking may provide insight into whether and how communities that may be affected are able to access channels at the level of the undertaking they are affected by in relation to each material impact. Relevant insights include information on whether affected communities can access channels in a language they understand and whether they have been consulted in the design of such channels.
- AR 87. Channels could be provided by an industry-wide initiative in which the undertaking takes part or by other third-party mechanisms such as the ones operated by the government or NGOs. The undertaking may disclose whether these are accessible to all **affected communities** who may be potentially or actually materially impacted by the undertaking, to individuals or organisations acting on their behalf, or who are otherwise in a position to be aware of negative **impacts**.
- AR 88. The undertaking may disclose the processes through which it supports the availability of such channels by its business relationships.

- AR 89. In relation to the protection of individuals that use the mechanisms against retaliation, the undertaking may describe whether it treats grievances confidentially and with respect for the rights of privacy and data protection and whether the mechanisms can be used anonymously (for example, through representation by a third party).
- AR 90. When disclosing processes related to providing and enabling **remedy** for **indigenous peoples**, relevant information includes whether and how the undertaking has considered their customs, traditions, rules and legal systems.
- AR 91. In disclosing whether and how the undertaking knows that **affected communities** are aware of and trust any of these channels, the undertaking may provide relevant and reliable data about the effectiveness of these channels from the perspective of the people concerned. Examples of such sources of information are surveys of community members that have used such channels and their levels of satisfaction with the process and outcomes.
- AR 92. The undertaking may disclose how it tracks and monitors the issues that are raised and addressed and how it ensures the effectiveness of the channels, including through the involvement of **stakeholders** who are intended **users** of those channels.
- AR 93. In describing the effectiveness of channels for **affected communities** to raise concerns, the undertaking may be guided by the following questions based on the 'effectiveness criteria for non-judicial **grievance mechanisms**' as laid out in the UN Guiding Principles on Business and Human Rights, in particular principle 31. The considerations below may be applied to individual channels or to a collective system of channels.
- (a) Do the channels have legitimacy by providing appropriate accountability for their fair conduct and building stakeholder trust?
 - (b) Are the channels known and accessible to **stakeholders**?
 - (c) Do the channels have clear and known procedures with indicative timeframes?
 - (d) Do the channels ensure reasonable access for stakeholders to sources of information, advice and expertise?
 - (e) Do the channels offer transparency by providing sufficient information to complainants and, where applicable, to meet any public interest?
 - (f) Do outcomes achieved through the channels accord with internationally recognised human rights?
 - (g) Does the undertaking identify insights from the channels that support continuous learning in both improving the channels and preventing future **impacts**?
- Does the undertaking focus on engaging in dialogue with complainants as a means to reaching agreed solutions rather than seeking to unilaterally determine the outcome?

Actions on material impacts on affected communities

- AR 94. When disclosing information on **actions** on material impacts related to **affected communities**, the undertaking shall describe:
- (a) the actions taken, planned or underway to prevent or mitigate material negative **impacts** on affected communities and
 - (b) the processes through which it identifies what action is needed and appropriate in response to a particular actual or potential negative impact on affected communities.
- AR 95. The undertaking shall disclose whether and how it takes action to avoid causing or contributing to material negative **impacts** on **affected communities** through its own

practices, including, where relevant, in relation to planning, land acquisition and exploitation, finance, extraction or production of **raw materials**, use of **natural resources** and management of environmental impacts. This may include disclosing what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

Guidance / Additional information for Policies related to consumers and end-users

AR 96. When describing its **policies** on **consumers** and **end-users**, the undertaking shall consider focusing on those matters that are material in relation to, as well as its general approach to:

- (a) engagement with consumers and/or end-users (refer to AR 97 and AR 98) and
- (b) measures to provide and/or enable **remedy** for human rights impacts (refer to AR 102 through AR 104).

Processes for engaging with consumers and end-users on impacts

AR 97. If the undertaking engages with **consumers and end-users**, when disclosing information under AR 95(a) the undertaking shall disclose:

- (a) its general processes for engaging, where relevant, with consumers and end-users and their representatives on actual and potential material **impacts** on them; and
- (b) whether and how the perspectives of its consumers and end-users inform its decisions or activities aimed at managing the actual and potential material impacts on them. This shall include, where relevant, an explanation of:
 - i. whether engagement occurs with affected consumers and end-users or their **legitimate representatives** directly or with **credible proxies** that have insight into their situation; and
 - ii. the stage(s) at which engagement occurs and the type of engagement and frequency of the engagement.

AR 98. If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with consumers and **end-users**, it may disclose a timeframe in which it aims to have such a process in place.

Guidance on 'processes for engaging with consumers and end-users on impacts'

AR 99. When preparing the disclosures described in AR 96(b), the following may be considered:

- (a) examples of stages in which engagement occurs, which are (i) determining the approach to mitigation and (ii) evaluating the effectiveness of mitigation;
- (b) for the type of engagement, these could be participation, consultation and/or information; and
- (c) for the frequency of the engagement, information may be provided on whether engagement occurs on a regular basis at certain points in a project or business process (for example, when a new harvest season begins or a new production line is opened), whether it occurs in response to legal requirements and/or in response to **stakeholder** requests and whether the result of the engagement is being integrated into the undertaking's decision-making processes.

AR 100. To illustrate how the perspectives of **consumers** and **end-users** have informed specific decisions or activities, the undertaking may provide examples from the current reporting period.

AR 101. **Credible proxies** who have knowledge of the interests, experiences or perspectives of **consumers** and **end-users** could include national consumer protection bodies for some consumers.

Processes for remediating negative impacts and channels for consumers and end-users to raise concerns

AR 102. If the undertaking has in place processes to provide for or cooperate in the **remediation** of negative **impacts** on **consumers** and **end-users** that the undertaking is connected with as well as channels available to them to raise concerns and have them addressed, when disclosing information under AR 95(b) it shall disclose:

- (a) its approach to and processes for providing or contributing to **remedy** where where it has caused or contributed to a material negative impact on consumers and **end-users**, including whether and how the undertaking assesses the provided remedy to be effective; and
- (b) any channels it has in place for consumers **and end-users** to raise their concerns or needs.

AR 103. The undertaking may disclose whether and how it assesses that **consumers** and/or **end-users** are aware of and trust these structures or processes as a way of raising their concerns or needs and have them addressed. In addition, the undertaking shall disclose whether the undertaking has policies in place for the protection of individuals that use them against retaliation.

AR 104. If the undertaking cannot disclose the above required information because it has not implemented those processes, it may disclose a timeframe in which it aims to have such processes in place.

Guidance on 'processes for remediating negative impacts and channels for consumers and end-users to raise concerns'

AR 105. In fulfilling the requirements set out in AR 102 to AR 104, the undertaking may be guided by the content of the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct focused on **remediation** and **grievance mechanisms**.

AR 106. Channels for raising concerns or needs include **grievance mechanisms**, hotlines, dialogue processes or other means through which **consumers** and **end-users** or their legitimate representatives can raise concerns about **impacts** or explain needs that they would like the undertaking to address. This could include channels provided by the undertaking directly and is to be disclosed in addition to any other mechanisms an undertaking may use to gain insight into its management of impacts on consumers and/or end-users, such as compliance audits. Where the undertaking is relying solely on information about the existence of such channels provided by its **business relationships** to answer this requirement, it may state that.

AR 107. These channels could be provided by an industry-wide initiative in which the undertaking takes part of or by other third party mechanisms such as the ones operated by the government or NGOs. The undertaking may disclose whether these are accessible to all **consumers** and/or **end-users** who may be potentially or actually materially impacted by the undertaking or individuals, to organisations acting on their behalf, or who are otherwise in a position to be aware of negative **impacts**.

AR 108. The undertaking may disclose the processes through which it supports or requires the availability of such channels by its business relationships for **consumers** and **end-users**.

- AR 109. In disclosing whether and how the undertaking knows that **consumers** and/or **end-users** are aware of and trust any of these channels, the undertaking may provide relevant and reliable data about the effectiveness of these channels from the perspective of the people concerned. Examples of such sources of information are surveys for consumers and/or end-users that have used such channels along with their levels of satisfaction with the process and outcomes. To illustrate the usage level of such channels, the undertaking may disclose the number of complaints received from consumers and/or end-users during the reporting period.
- AR 110. The undertaking may disclose how it tracks and monitors the issues that are raised and addressed and how it ensures the effectiveness of the channels, including through the involvement of **stakeholders** who are intended **users**.
- AR 111. In describing the effectiveness of channels for **consumers** and/or **end-users** to raise concerns, the undertaking may be guided by the following questions based on the 'effectiveness criteria for non-judicial **grievance mechanisms**' as laid out in the UN Guiding Principles on Business and Human Rights, in particular principle 31. The considerations below may be applied to individual channels or to a collective system of channels.
- (a) Do the channels have legitimacy by providing appropriate accountability for their fair conduct and building stakeholder trust?
 - (b) Are the channels known and accessible to **stakeholders**?
 - (c) Do the channels have clear and known procedures with indicative timeframes?
 - (d) Do the channels ensure reasonable access for stakeholders to sources of information, advice and expertise?
 - (e) Do the channels offer transparency by providing sufficient information to complainants and, where applicable, to meet any public interest?
 - (f) Do outcomes achieved through the channels accord with internationally recognised human rights?
 - (g) Does the undertaking identify insights from the channels that support continuous learning in both improving the channels and preventing future **impacts**?
 - (h) Does the undertaking focus on engaging in dialogue with complainants as a means to reaching agreed solutions rather than seeking to unilaterally determine the outcome?
- AR 112. To provide greater insight into the information covered in this Disclosure Requirement regarding **consumers** and **end-users**, the undertaking may provide insight into whether and how consumers and/or end-users that may be affected are able to access channels at the level of the undertaking they are affected by in relation to each material impact.
- AR 113. In relation to the protection of individuals that use the mechanisms against retaliation, the undertaking may describe whether it treats grievances confidentially and with respect for the rights of privacy and data protection and whether the mechanisms can be used anonymously (for example, through representation by a third party).

Actions on material impacts on consumers and end-users

- AR 114. When disclosing information on **actions** on material **impacts** related to consumers and **end-users**, the undertaking shall describe:
- (a) the actions taken, planned or underway to prevent, mitigate or remediate material negative impacts on **consumers** and/or end-users and

- (b) the processes through which it identifies what action is needed and appropriate in response to a particular actual or potential negative impact on consumers and/or end-users.

AR 115. The undertaking shall disclose whether and how it takes action to avoid causing or contributing to material negative **impacts** on **consumers** and/or **end-users** through its own practices, including, where relevant, marketing practices, sales and data use. This may include disclosing what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

BUSINESS CONDUCT

Policies for business conduct

AR 116. When disclosing information on **policies** related to business conduct, the undertaking shall disclose:

- (a) the role of the **administrative, management and supervisory bodies** in business conduct;
- (b) the expertise of the administrative, management and supervisory bodies in business conduct matters;
- (c) whether it has policies on anti-**corruption** or anti-**bribery**;
- (d) if the undertaking has no policies on anti-**corruption** or anti-**bribery**, it shall state this and whether it has plans to implement them along with the timetable for implementation;
- (e) whether it has policies on the protection of whistle-blowers; and
- (f) where applicable, whether the undertaking has in place policies for animal welfare.

Disclosure Requirement 12 (IR-4) – Targets in relation to sustainability matters

AR 117. If the undertaking has **targets** on **GHG emission reduction**, it shall disclose, if material, the information reported in the table below:

ID	Application requirement	Sustainability topic	Targets – T	EU data points
1	The undertaking shall disclose its GHG emission reduction targets for scope 1, 2 and 3.	Climate change	T	SFDR Tab. 2 KPI 4 Climate benchmark regulation, Art. 6

AR 118. When disclosing **targets** related to the prevention or mitigation of environmental **impacts**, the undertaking may prioritise targets related to the reduction of the impacts in absolute terms rather than in relative terms. When targets address the prevention or mitigation of social impacts, they may be specified in terms of their effects on human rights, welfare or positive outcomes for affected **stakeholders**.

AR 119. The information on progress made towards achieving the **targets** may be presented in a comprehensive table, including information on the baseline and target value, milestones and achieved performance over the prior periods.

AR 120. When disclosing **targets** related to environmental matters, the undertaking shall identify those that are science-based.

AR 121. If the undertaking has **targets**, it may disclose additional topic specific information defined in the following paragraphs.

ENVIRONMENT

Guidance / Additional information for Targets on Climate change

AR 122. Regarding **GHG emission reduction targets** for Scope 1, 2, and 3, the undertaking may disclose:

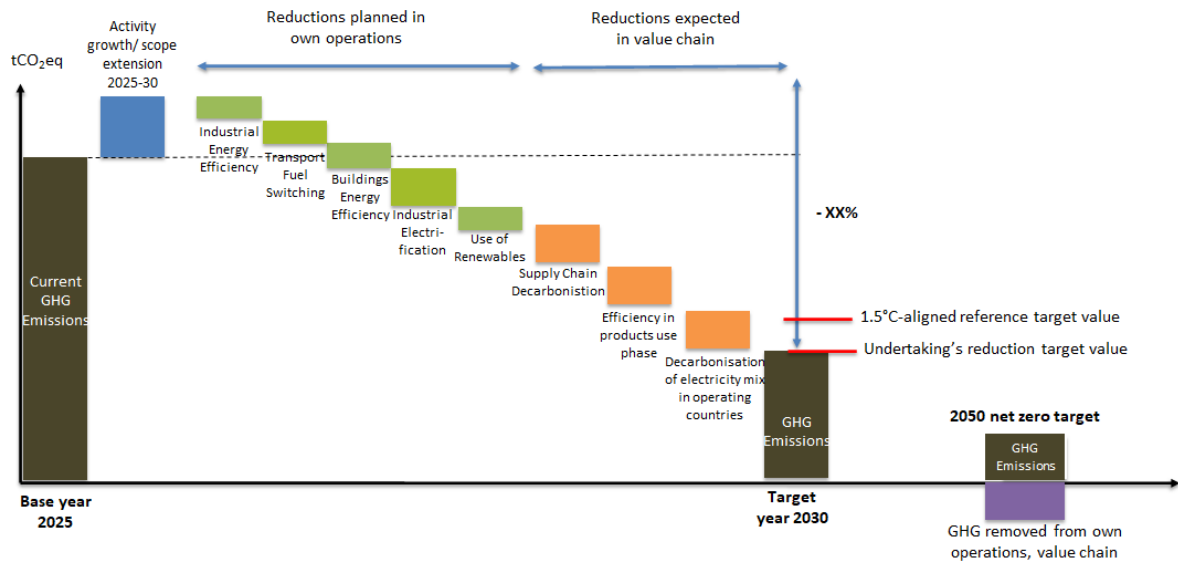
- (a) GHG emission reduction **targets** in absolute value (either in tonnes of CO₂eq or as a percentage of the **emissions** of a base year) and, where relevant, in intensity value;
- (b) GHG emission reduction targets for **Scope 1, 2, and 3 GHG emissions**, either separately or combined. The undertaking shall specify, in case of combined GHG emission reduction targets, which GHG emission Scopes (1, 2 and/or 3) are covered by the target;
- (c) the current base year and baseline value of the target, and from 2030 onwards, an update of the base year for its GHG emission reduction targets after every five-year period thereafter;
- (d) whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5°C, including information on which framework or methodology has been used to determine these targets – such as whether they are derived using a sectoral decarbonisation pathway – what the underlying climate and **policy scenarios** are and whether they have been externally assured; and

- (e) the expected **decarbonisation levers** and their overall quantitative contributions towards achieving the GHG emission reduction targets (e.g., energy or material efficiency and consumption reduction, fuel switching, use of **renewable energy**, phase out or substitution of product and process).
- AR 123. When setting climate change science-based **targets** or disclosing them, the undertaking may consider indications contained in resources like the Science Based Targets initiative (SBTi) for Small and Medium-Sized Enterprises (SMEs) by CDP, the United Nations Global Compact, the World Resources Institute, the WWF's publications issued by the WWF and BCG (2020) and *Beyond Science-Based Targets: A Blueprint for Corporate Action on Climate and Nature*.
- AR 124. When disclosing information related to **GHG emission reduction targets**, the undertaking may specify the share of the target related to each respective **GHG emission Scope (1, 2 or 3)**. The undertaking may specify the method used to calculate **Scope 2 GHG emissions** included in the target (i.e., either the location-based or market-based method). If the boundary of the GHG **emission reduction target** diverges from that of the GHG **emissions**, the undertaking may disclose the respective percentages of Scope 1, 2, 3 and total GHG emissions covered by the target.
- AR 125. When disclosing information on base year and baseline value:
- (a) the undertaking may briefly explain how it has ensured that the baseline value against which the progress towards the target is measured is representative of the activities covered and the influences exerted by external factors (e.g., temperature anomalies in a certain year influencing the amount of energy consumption and the related GHG emissions). This can be done by the normalisation of the baseline value, e.g., by using a baseline value that is derived from a three-year average if this increases the representativeness and allows for a more faithful representation;
 - (b) the baseline value and base year shall not be changed unless significant changes in either the target or reporting boundary occur. In such a case, the undertaking may explain how the new baseline value affects the new target, its achievement and presentation of progress over time. To foster comparability, when setting new **targets** the undertaking may select a recent base year that does not precede the first reporting year of the new target period by more than three years. For example, with the target year set to 2030 and the target period to between 2025 and 2030, the base year shall be selected from the period between 2022 and 2025; and
 - (c) the undertaking may disclose the progress made in meeting these targets before its current base year when presenting climate-related targets.
- AR 126. The undertaking may present information during the target period with reference to a sector-specific **emission** pathway if available or else a cross-sector emission pathway compatible with limiting global warming to 1.5°C. For these purposes, the undertaking may calculate a 1.5°C aligned reference target value for Scope 1 and 2 (and, if applicable, a separate one for Scope 3) against which its own **GHG emission reduction targets** or interim **targets** in the respective Scopes can be compared.
- AR 127. The reference target value may be calculated by multiplying the GHG **emissions** in the base year with either a sector-specific (sectorial decarbonisation methodology) or cross-sector (contraction methodology) **emission reduction** factor. These emission reduction factors can be derived from different sources. The undertaking should ensure that the source used is based on an emission reduction pathway compatible with limiting global warming to 1.5°C.
- AR 128. The **emission reduction** factors are subject to further development. Consequently, undertakings are encouraged to only use updated publicly available information.

	2030	2050
Cross-sector (ACA) reductions pathway based on the year 2020 as the reference year	-42%	-90%

Source: based on Pathways to Net-zero – SBTi Technical Summary (Version 1.0, October 2021).

- AR 129. The reference target value is dependent on the base year and baseline **emissions** of the undertaking's **GHG emission reduction target**. As a result, the reference target value for undertakings with a recent base year or from higher baseline emissions may be less challenging to achieve than it will be for undertakings that already have taken ambitious past **actions** to reduce GHG emissions. Therefore, undertakings that have in the past achieved GHG emissions reductions compatible with either a 1.5°C-aligned cross-sector or sector-specific pathway may adjust their baseline emissions accordingly to determine the reference target value. If the undertaking is adjusting the baseline emissions to determine the reference target value, it shall not consider GHG emission reductions prior to the year 2020, and it should provide appropriate evidence of its past achieved GHG emission reductions.
- AR 130. When disclosing the information related to expected **decarbonisation levers**, the undertaking may explain:
- by reference to its **climate change mitigation actions**, the decarbonisation levers and their estimated quantitative contributions to the achievement of its **GHG emission reduction targets** broken down by each Scope (1, 2 and 3);
 - whether it plans to adopt new technologies and the role of these in achieving its GHG emission reduction targets; and
 - whether and how it has considered a diverse range of climate **scenarios**, including at least a climate scenario compatible with limiting global warming to 1.5°C, to detect relevant environmental-, societal-, technology-, market- and **policy**-related developments and determine its decarbonisation levers.
- AR 131. The undertaking may present its GHG **emission reduction targets** together with its **climate change mitigation actions** (see paragraph AR 20) in a table or graphical pathway showing developments over time. The following figure and table provide examples combining **targets** and **decarbonisation levers**:



	Base year (e.g., 2025)	2030 target	2035 target	...	Up to 2050 target
GHG emissions (ktCO ₂ eq)	100	60	40		
Energy efficiency and consumption reduction	-	-10	-4		
Material efficiency and consumption reduction	-	-5	-		
Fuel switching	-	-2	-		
Electrification	-	-	-10		
Use of renewable energy	-	-10	-3		

Phase out or substitution of product change	-	-8	-		
Phase out or substitution of process change	-	-5	-3		
Other	-	-			

Guidance / Additional information for Targets on Pollution

- AR 132. When disclosing information on **targets** that are related to **pollution**, the undertaking may specify whether and how its targets relate to the prevention and control of air **pollutants** and the respective **specific loads; emissions** to water and the respective specific loads; pollution to **soil** and the respective specific loads; **substances of concern**; and **substances of very high concern**.
- AR 133. If the undertaking refers to **ecological thresholds** when setting **targets**, it may refer to the guidance provided by the Science-Based Targets Initiative for Nature (SBTN) in its interim guidance (Initial Guidance for Business, September 2020) or any other guidance with a scientifically acknowledged methodology that allows for the setting of science-based targets by identifying ecological thresholds and, if applicable, entity-specific allocations. Ecological thresholds can be local, national and/or global.
- AR 134. The undertaking may specify whether the **target** addresses shortcomings related to the Substantial Contribution criteria for Pollution Prevention and Control as defined in delegated acts adopted pursuant to Article 14(2) of Regulation (EU) 2020/852. Where the Do No Significant Harm (DNSH) criteria for Pollution Prevention and Control as defined in delegated acts adopted pursuant to Article 10(3), Article 11(3), Article 12(2), Article 13(2), and Article 15(2) of Regulation (EU) 2020/852 are not met, the undertaking may specify whether the target addresses shortcomings related those DNSH criteria.

Additional guidance for targets on water and marine resources

- AR 135. When disclosing information on **targets** that are related to water and **marine resources**, the undertaking may indicate whether and how its targets relate to:
- the management of material **impacts** and **risks** related to **areas at water risk**, including improvement of the water quality;
 - the responsible management of marine resources impacts and risks, including the nature and quantity of marine resources-related commodities (such as gravels, deep-sea minerals and seafood) used by the undertaking; and
 - the reduction of **water consumption**, including an explanation of how those **targets** relate to areas at water risk, including areas of high water-stress.

- AR 136. If the undertaking refers to **ecological thresholds** when setting **targets**, it may refer to the guidance provided by the Science-Based Targets Initiative for Nature (SBTN) in its interim guidance (Initial Guidance for Business, September 2020). It may also refer to any other guidance with a scientifically acknowledged methodology that enables the setting of science-based targets by identifying ecological thresholds and, if applicable, organisation-specific allocations. Ecological thresholds can be local, national and/or global.
- AR 137. The undertaking may provide **targets** related to:
- (a) the reduction of **water withdrawals** and
 - (b) the reduction of **water discharges**.
- AR 138. If the undertaking provides **targets** on withdrawals, it may include **water withdrawal** from polluted **soils** and aquifers as well as water withdrawn and treated for **remediation** purposes.
- AR 139. If the undertaking provides **targets** on **discharges**, it may include **water discharges** to **groundwater** such as reinjection to aquifers or water returning to a groundwater source via a soakaway or a swale.

Additional guidance for targets on biodiversity and ecosystems

- AR 140. When disclosing information on **targets** that are related to **biodiversity** and **ecosystems**, the undertaking may specify whether and how these targets are related to:
- (a) contribution to direct **impact drivers** on **biodiversity loss**;
 - (b) **impacts** on the state of species (i.e., on species population size, species global extinction risk, etc.);
 - (c) **impacts** on the extent and condition of **ecosystems** including through **land degradation, desertification** and **soilsealing**; and
 - (d) **Impacts** and **dependencies** on **ecosystem services**.
- AR 141. When disclosing information on **targets** that are related to biodiversity and ecosystems, the undertaking may specify:
- (a) whether **ecological thresholds** and allocations of **impacts** to the undertaking were applied when setting **targets**;
 - (b) whether the targets are informed by and/or are aligned with the Kunming-Montreal Global Biodiversity Framework, relevant aspects of the EU Biodiversity Strategy for 2030 and other **biodiversity** and **ecosystem**-related national **policies** and legislation;
 - (c) the geographical scope of the targets if relevant;
 - (d) whether or not the undertaking used biodiversity offsets; and
 - (e) to which of the layers of the mitigation hierarchy the target can be allocated (i.e., avoidance, minimisation, restoration and rehabilitation, or compensation and offsets).
- AR 142. The **targets** related to material **impacts** may be presented in a table as shown below:

Type of target according to mitigation hierarchy	Baseline value and base year	Target value and geographical scope			Connected policy or legislation if relevant
		2025	2030	Up to 2050	
Avoidance					
Minimisation					
Rehabilitation and restoration					
Compensation or offsets					

The targets related to the aspects listed in paragraph AR 122 of this Section may be presented in a table as shown below:

Type of target according to sustainability matter	Baseline value and base year	Target value and geographical scope			Related policy or legislation if relevant
		2025	2030	Up to 2050	

AR 143. Measurable **targets** related to **biodiversity** and **ecosystems** may be expressed in terms of:

- (a) size and location of all **habitat** areas protected or restored, whether directly or indirectly controlled by the undertaking and whether the success of the restoration measure was or is approved by independent external professionals;
- (b) recreated surfaces (environments in which management initiatives are implemented so as to create a habitat on a **site** where it did not exist initially); or
- (c) number or percentage of projects/sites whose ecological integrity was improved (e.g., installation of fish passes, wildlife corridors, etc.).

Guidance / Additional information for Targets on Resource use and circular economy

AR 144. When disclosing information on **targets** that are related to resource use and **circular economy**, the undertaking may specify:

- (a) whether and how its **targets** relate to **resource inflows** and **resource outflows**, including **waste**, products and materials;
- (b) which layer of the **waste hierarchy** the target relates to; and

- (c) whether **ecological thresholds** and entity-specific allocations were taken into consideration when setting **targets**.
- AR 145. If the undertaking refers to **ecological thresholds** to set **targets**, it may refer to the guidance provided by the Science-Based Targets Initiative for Nature (SBTN) in its interim guidance (Initial Guidance for Business, September 2020) or any other guidance with a scientifically acknowledged methodology that allows for the setting of science-based targets by identifying ecological thresholds and, if applicable, organisation-specific allocations. Ecological thresholds can be local, national and/or global.
- AR 146. When providing information on **targets** related to resource use and **circular economy**, the undertaking may prioritise targets in absolute value.

SOCIAL

Guidance / Additional information for Targets on Own workforce

- AR 147. When disclosing information on **targets** that are related to **own workforce**, the undertaking may disclose a summarised description of the time-bound and outcome-oriented targets it may have set related to:
- (a) reducing negative **impacts** on its own workforce,
 - (b) advancing positive impacts on its own workforce, and/or
 - (c) managing **material risks** related to its own workforce.
- AR 148. The undertaking may disclose the process for setting its **targets**, including whether and how the undertaking engaged directly with its **own workforce** or **workers' representatives** in:
- (a) setting any such targets,
 - (b) tracking the undertaking's performance against them, and
 - (c) identifying any lessons or improvements resulting from the undertaking's performance.

Additional guidance for targets on value chain workers

- AR 149. When disclosing information on **targets** that are related to **value chain workers**, the undertaking may disclose a summarised description of the time-bound and outcome-oriented targets it may have set related to:
- (a) reducing negative **impacts** on value chain workers,
 - (b) advancing positive impacts on value chain workers, and/or
 - (c) managing **material risks** related to value chain workers.
- AR 150. The undertaking may disclose its process for setting **targets**, including whether and how the undertaking engaged directly with workers in the value chain, their **legitimate representatives**, or with **credible proxies** that have insight into their situation when:
- (a) setting any such targets,
 - (b) tracking the undertaking's performance against them, and
 - (c) identifying any lessons or improvements resulting from the undertaking's performance.

Guidance / Additional information for Targets on Affected communities

- AR 151. When disclosing information on **targets** that are related to **affected communities**, the undertaking may disclose a summarised description of the time-bound and outcome-oriented targets it may have set related to:

- (a) reducing negative **impacts** on affected communities,
 - (b) advancing positive impacts on affected communities, and/or
 - (c) managing **material risks** related to affected communities.
- AR 152. The undertaking may disclose the process for setting the **targets**, including whether and how the undertaking engaged directly with **affected communities**, their **legitimate representatives**, or with **credible proxies** that have insight into their situation when:
- (a) setting any such targets,
 - (b) tracking the undertaking's performance against them, and
 - (c) identifying any lessons or improvements resulting from the undertaking's performance.

Guidance / Additional information for Targets on Consumers and end-users

- AR 153. When disclosing information on **targets** that are related to **consumers** and **end-users**, the undertaking may disclose a summarised description of the time-bound and outcome-oriented targets it may have set related to:
- (a) reducing negative **impacts** on consumers and/or end-users,
 - (b) advancing positive impacts on consumers and/or end-users, and/or
 - (c) managing **material risks** related to consumers and/or end-users.
- AR 154. The undertaking may disclose its process for setting the **targets**, including whether and how the undertaking engaged directly with **consumers** and/or **end-users**, their **legitimate representatives**, or with **credible proxies** that have insight into their situation when:
- (a) setting any such targets;
 - (b) tracking the undertaking's performance against them; and
 - (c) identifying, if any, lessons or improvements resulting from the undertaking's performance.

ESRS LSME ED – SECTION 4 ENVIRONMENT

DISCLAIMER

Section 4 *Environment* is set out in paragraphs 1–73. The following appendices of Section 4 have the same authority as the main body of the [draft] Standard:

- *Appendix A: Application Requirements*,

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Objective

1. The objective of the Environmental Disclosures in this [draft] Standard is to enable users of sustainability statements to understand:
 - (a) how the undertaking, actually or potentially, negatively impacts the following environmental topics:
 - i. climate change (E1);
 - ii. pollution of air, water and soil (E2);
 - iii. water and marine resources (E3);
 - iv. biodiversity and ecosystems (E4);
 - v. resource use and circular economy (E5);
 - (b) the plans and capacity of the undertaking to adapt its strategy and business model(s) in line with the transition to a sustainable economy and international environmental agreements, goals and initiatives, including but not limited to:
 - i. the Paris Agreement (or an updated international agreement on climate change) and the objective of limiting global warming to 1.5°C (E1);
 - ii. alignment with the European Green Deal's ambitions for prevention, control and elimination of pollution and the objective of creating a toxin-free environment with zero pollution in support of the EU Action Plan "Towards a Zero Pollution for Air, Water and Soil" (E2);
 - iii. alignment with the European Green Deal's ambitions for clean water and the sustainability of the **blue economy** and fisheries sectors considering the EU Water Framework Directive and the EU Marine Strategy Framework Directive and the EU Maritime Spatial Planning Directive (E3);
 - iv. the Kunming-Montreal Global Biodiversity Framework and its goals and targets, the EU Biodiversity Strategy for 2030, the Directive 2009/147/EC of the European Parliament and of the Council and Council Directive 92/43/EEC (EU Birds and Habitats Directives), the Directive 2008/56/EC of the European Parliament and of the Council (Marine Strategy Framework Directive) (E4);
 - v. alignment with circular economy principles, including but not limited to minimising waste, maintaining the value of products, materials and other resources at their highest value and enhancing their efficient use in production and consumption, based on the EU Circular Economy Action Plan, the Waste Framework directive and the EU industrial strategy (E5).
 - (c) any **actions** taken by the undertaking, and the result of such actions to prevent, mitigate or remediate potential negative **impacts** on environmental topics, including:
 - i. to reduce GHG emissions and increase energy efficiency (E1);
 - ii. to prevent, control and reduce pollution of air, water and soil (E2);
 - iii. to reduce water consumption and to protect water and marine resources (E3);
 - iv. to protect and restore biodiversity and ecosystems (E4); and
 - v. to prevent and decrease resource depletion, increase resource efficiency and decouple economic growth from use of materials (E5).
 - (d) the nature, type and extent of the undertaking's **material risks** arising from the undertaking's **impacts** and **dependencies** on environmental topics, and how the undertaking manages them; and
 - (e) the short-, medium- and long-term financial effects on the undertaking of **material risks** arising from the undertaking's environmental **impacts** and **dependencies**.

2. This [draft] Section 4 covers Disclosure Requirements related to the following **sustainability matters** as per AR 15, Appendix A, Section 1 of this standard.
3. The objectives in paragraph 1 and the **metrics** disclosure requirements under Section 4 E1 to E5 shall be read in conjunction with Section 2 and 3 of this [draft], *General Disclosures*.
4. The undertaking shall apply the requirements in this Section, when it concludes that the corresponding topic is material (according to chapter 3.3 *Double materiality*, 3.4 *Impact materiality* and 3.5 *Financial materiality* of Section 1). Following the undertaking's assessment of the materiality of the information according to paragraph 36 of Section 1, the sustainability statement shall include those disclosures prescribed in this Section that are assessed to be material. Individual datapoints may be omitted when the corresponding information is not material and the undertaking concludes the information is not needed to meet the objective of the Disclosure Requirement.
5. The Disclosure Requirements under E1 to E5 of this Section of the [draft] Standard take into account the requirements of related EU legislation and regulation (i.e., EU Climate Law, Regulation (EU) 2019/2088 (SFDR), Regulation (EU) 2020/852 (the EU Taxonomy), Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation), and EBA Pillar 3 ESG risk disclosure requirements).

Climate Change (E1)

Disclosure Requirements – Climate Change (E1)

Disclosure Requirement E1-1– Energy consumption and mix

6. **The undertaking shall provide information on its energy consumption and mix.**
7. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's total energy consumption in absolute value, improvement in energy efficiency, exposure to coal, oil and gas-related activities, and the share of **renewable energy** in its overall energy mix.
8. The disclosure required by paragraph 6 shall include the total energy consumption in MWh related to own operations, disaggregated by:
 - (a) total energy consumption from fossil sources¹;
 - (b) total energy consumption from nuclear sources;
 - (c) total energy consumption from renewable sources; and
 - (d) where applicable, the undertaking shall disaggregate and disclose separately its **non-renewable energy** production and **renewable energy** production in MWh.²

Energy intensity based on net revenue³

9. The undertaking shall provide information on the energy intensity (total energy consumption per net revenue) associated with activities in **high climate impact sectors**. The disclosure

¹ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicator #5 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Share of non-renewable energy consumption and production"). The breakdown serves as a reference for an additional indicator related to principal adverse impacts as set out by indicator #5 in Table 2 of the same Annex ("Breakdown of energy consumption by type of non-renewable sources of energy").

² This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicator #5 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Share of non-renewable energy consumption and production").

³ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicator #6 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Energy consumption intensity per high impact climate sector").

on energy intensity shall only be derived from the total energy consumption and net revenue from activities in **high climate impact sectors**.

10. The undertaking shall specify the **high climate impact sectors** that are used to determine the energy intensity required by paragraph 9.
11. The undertaking shall disclose the reconciliation to the relevant line item or notes in the financial statements of the net revenue amount from activities in **high climate impact sectors** (the denominator in the calculation of the energy intensity required by paragraph 9). If it is not possible to provide a reconciliation after making reasonable efforts to do so, the undertaking shall provide an explanation of where in the financial statements the net revenue amount from activities in high climate impact sectors can be found.

Disclosure Requirement E1-2– Gross Scopes 1, 2, 3 and Total GHG emissions

12. The undertaking shall disclose in metric tonnes of CO₂eq its⁴:
 - (a) gross Scope 1 GHG emissions;
 - (b) gross Scope 2 GHG emissions;
 - (c) gross Scope 3 GHG emissions; and
 - (d) total GHG emissions.
13. The objective of the Disclosure Requirement in paragraph 12 in respect of:
 - (a) gross **Scope 1 GHG emissions** as required by paragraph 12 (a) is to provide an understanding of the direct impacts of the undertaking on climate change and the proportion of its total GHG emissions that are regulated under emission trading schemes.
 - (b) gross **Scope 2 GHG emissions** as required by paragraph 12(b) is to provide an understanding of the indirect impacts on climate change caused by the undertaking's consumed energy whether externally purchased or acquired.
 - (c) gross **Scope 3 GHG emissions** as required by paragraph 12(c) is to provide an understanding of the GHG emissions that occur in the undertaking's upstream and downstream **value chain** beyond its Scope 1 and 2 GHG emissions. For many undertakings, Scope 3 GHG emissions may be the main component of the GHG inventory and are an important driver of the undertaking's **transition risks**.
 - (d) total GHG **emissions** as required by paragraph 12(d) is to provide an overall understanding of the undertaking's GHG emissions and whether they occur from its own operations or the upstream and downstream **value chain**. This disclosure is a prerequisite for measuring progress towards reducing GHG emissions in accordance with the undertaking's climate-related **targets** and EU policy **goals**.
14. The information from this Disclosure Requirement is also needed to understand the undertaking's climate-related **transition risks**.
15. When disclosing the information on **GHG emissions** required under paragraph 12, the undertaking shall refer to [draft] ESRS LSME Section 1 *Reporting undertaking and value chain*. In principle, the data on GHG emissions of its associates or joint ventures that are part of the undertaking's upstream and downstream value chain (Section 1 paragraph 62) are not limited to the share of equity held. For its associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), the undertaking shall include the GHG emissions reflecting the extent of the undertaking's **operational control** over them.

⁴ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicators #1 and #2 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (respectively, "GHG emissions" and "Carbon footprint"). This information is aligned with the Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation), Articles 5 (1), 6 and 8 (1).

16. In case of significant changes in the definition of what constitutes the reporting undertaking and its upstream and downstream **value chain**, the undertaking shall disclose these changes and explain their effect on the year-to-year comparability of its reported GHG **emissions** (i.e., the effect on the comparability of current versus previous reporting period GHG emissions).
17. The disclosure on gross **Scope 1 GHG emissions** required by paragraph 12 (a) shall include:
 - (a) the gross Scope 1 GHG emissions in metric tonnes of CO₂eq; and
 - (b) if applicable, the percentage of Scope 1 GHG emissions from regulated emission trading schemes.
18. The disclosure on gross **Scope 2 GHG emissions** required by paragraph 12 (b) shall include:
 - (a) the gross location-based Scope 2 GHG emissions in metric tonnes of CO₂eq; and
 - (b) if applicable, the gross market-based Scope 2 GHG emissions in metric tonnes of CO₂eq.
19. The disclosure of gross **Scope 3 GHG emissions** required by paragraph 12(c) shall include GHG emissions in metric tonnes of CO₂eq from each significant **Scope 3 category** (i.e., each Scope 3 category that is a priority for the undertaking).
20. The disclosure of total **GHG emissions** required by paragraph 12(d) shall be the sum of **Scope 1, 2 and 3 GHG emissions** required by paragraphs 12(a) to 12(c). The total GHG emissions shall be disclosed with a disaggregation that makes a distinction of:
 - (a) the total GHG emissions derived from the underlying Scope 2 GHG emissions being measured using the location-based method; and
 - (b) if applicable, the total GHG emissions derived from the underlying Scope 2 GHG emissions being quantified using the market-based method.

GHG Intensity based on net revenue⁵

21. The undertaking shall disclose its GHG **emissions** intensity. It shall provide the total GHG emissions in metric tonnes of CO₂eq (required by paragraphs 12(d)) per net revenue.
22. The undertaking shall disclose the reconciliation to the relevant line item or notes in the financial statements of the net revenue amounts (the denominator in the calculation of the GHG **emissions** intensity required by paragraphs 21). If it is not possible to provide a reconciliation after making reasonable efforts to do so, the undertaking shall provide an explanation of where in the financial statements net revenue amounts can be found.
23. Small and non-complex credit institutions (see Section 1 paragraph 2b)) may replace net revenue with a different financial indicator, until a sectoral standard is established.

Disclosure Requirement E1-3 – GHG removals and GHG mitigation projects financed through carbon credits

24. **If applicable, the undertaking shall disclose:**
 - (a) GHG removals and storage in metric tonnes of CO₂eq resulting from projects it may have developed in its own operations; and
 - (b) the amount of GHG emission reductions or removals from climate change mitigation projects outside its **value chain** it has financed through any purchase of **carbon credits**.
25. The objective of this Disclosure Requirement is:

⁵ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicator #3 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (“GHG intensity of investee companies”). This information is aligned with the Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation), Article 8 (1).

- (a) to provide an understanding of the undertaking's **actions** to permanently remove GHG from the atmosphere.
 - (b) to provide an understanding of the extent and quality of **carbon credits** the undertaking has purchased or intends to purchase from the voluntary market, potentially for supporting its GHG neutrality claims (as stated in paragraph 28).
26. The disclosure on **GHG removals and storage** required by paragraph 24 (a) shall include, if applicable:
- (a) the total amount of GHG removals and storage in metric tonnes of CO₂eq, broken down by removal activity; and
 - (b) the calculation assumptions, methodologies and frameworks applied by the undertaking.
27. The disclosure on **carbon credits** required by paragraph 24 (b) shall include, if applicable, the total amount of carbon credits outside the undertaking's **value chain** in metric tonnes of CO₂eq that are verified against recognised quality standards and cancelled in the reporting period.
28. In the case where the undertaking may have made public claims of GHG neutrality that involve the use of **carbon credits**, it shall explain:
- (a) Whether and how these claims are accompanied by GHG **emission reduction targets** as required by Section 2 DR 12 (IR-4);
 - (b) whether and how these claims and the reliance on carbon credits neither impede nor reduce the achievement of its GHG emission reduction **targets**⁶, or, if applicable, its net zero target; and
 - (c) the credibility and integrity of the **carbon credits** used, including by reference to recognised quality standards.

Disclosure Requirement E1-4– Anticipated financial effects from material physical and transition risks and potential climate-related opportunities

29. **The undertaking shall disclose its:**
- (a) anticipated financial effects from material physical risks;
 - (b) anticipated financial effects from material transition risks.
30. The information required by paragraph 29 is in addition to the information on the current **financial effects** required under ESRS Section 2 SBM-3 paragraph 35 (c). The objective of this Disclosure Requirement related to **anticipated financial effects** due to material **physical risks** and **transition risks** is to provide an understanding of how these risks have (or could reasonably be expected to have) a material influence on the undertaking's financial position, financial performance and cash flows, over the short-, medium- and long-term. If the undertaking uses **scenario analysis** to conduct resilience analysis, the results of such analysis should inform the assessment of anticipated financial effects from material physical and transition risks.
31. The disclosure of **anticipated financial effects** from material **physical risks** required by paragraph 29 (a) shall include⁷:
- (a) the monetary amount and proportion (percentage) of assets at material physical risk over the short-, medium- and long-term before considering **climate change adaptation actions**; with the monetary amounts of these assets disaggregated by acute and chronic physical risk⁸;

⁶ This information is aligned with the Regulation (EU) 2021/1119 of the European Parliament and of the Council (EU Climate Law), Article 2 (1).

⁷ This information is aligned with the Commission Delegated Regulation (EU) 2020/1816 (Climate Benchmark Regulation), Annex II.

⁸ This disclosure requirement is consistent with the requirements included in EBA Pillar 3 ITS - [Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk](#).

- (b) the proportion of assets at material physical risk addressed by the **climate change adaptation actions**, only if such actions are implemented;
 - (c) the location of significant assets at material physical risk⁹; and
 - (d) the monetary amount and proportion (percentage) of net revenue from its business activities at material physical risk over the short-, medium- and long-term.
32. The disclosure of **anticipated financial effects** from material **transition risks** required by paragraph 29 (b) shall include:
- (a) the monetary amount and proportion (percentage) of assets at material transition risk over the short-, medium- and long-term before considering **climate mitigation actions**;
 - (b) the proportion of assets at material transition risk addressed by the **climate change mitigation actions**, only if such actions are implemented;
 - (c) a breakdown of the carrying value of its real estate assets by energy-efficiency classes¹⁰;
 - (d) if applicable, liabilities that may have to be recognised in financial statements over the short-, medium- and long-term; and
 - (e) the monetary amount and proportion (percentage) of net revenue from its business activities at material transition risk over the short-, medium- and long-term including, where relevant, the net revenue from the undertaking's customers operating in coal, oil and gas-related activities. The undertaking may use ranges instead of a single amount.
33. The undertaking shall disclose which relevant line items or notes in the financial statements are affected by significant amounts of the assets and net revenue at material **physical risk** (as required by paragraph 31) and by significant amounts of the assets, liabilities, and net revenue at material transition risk (as required by paragraph 32).
34. The undertaking may disclose its potential to pursue material climate-related **opportunities**, to enable an understanding of how the undertaking may financially benefit from material climate-related opportunities. This disclosure is complementary to the key performance indicators to be disclosed in accordance with Commission Delegated Regulation (EU) 2021/2178.
35. For the disclosure of potential to pursue climate-related **opportunities**, the undertaking may consider¹¹:
- (a) its expected cost savings from **climate change mitigation** and adaptation **actions**; and
 - (b) the potential market size or expected changes to net revenue from low-carbon products and services or adaptation solutions to which the undertaking has or may have access.

⁹ This disclosure requirement is consistent with the requirements included in EBA Pillar 3 ITS - [Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk](#).

¹⁰ This disclosure requirement is consistent with the requirements included in EBA Pillar 3 ITS - [Template 2: Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral](#).

¹¹ This information is aligned with the Commission Delegated Regulation (EU) 2020/1816 (Climate Benchmark Regulation), Annex II.

Pollution (E2)

Disclosure Requirements – Pollution (E2)

Disclosure Requirement E2-1– Pollution of air, water and soil

36. **The undertaking shall disclose the pollutants that it emits through its own operations, as well as the microplastics it generates or uses.**
37. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's **emissions** to air, **water** and **soil** in its own operations and of its generation and use of microplastics.
38. The undertaking shall disclose the amounts of:
 - (a) each pollutant emitted to air, **water** and **soil** listed in Annex II of Regulation (EC) No 166/2006 of the European Parliament and of the Council¹² (European Pollutant Release and Transfer Register “E-PRTR Regulation”) for which the applicable threshold value at facility level is exceeded, with the exception of emissions of **GHGs** which are disclosed in accordance with ESRS LSME ED E1 Climate Change¹³;
 - (b) microplastics generated or used by the undertaking.
39. The undertaking shall put its disclosure into context and describe:
 - (a) the changes over time,
 - (b) the measurement methodologies; and
 - (c) the process(es) to collect data for **pollution**-related accounting and reporting, including the type of data needed and the information sources.

Disclosure Requirement E2-2 – Substances of concern and substances of very high concern

40. **The undertaking shall disclose information on the production, use, distribution, commercialisation and import/export of substances of concern and substances of very high concern on their own, in mixtures or in articles.**
41. The objective of this Disclosure Requirement is to enable an understanding of the impact of the undertaking on health and the environment through **substances of concern** and through **substances of very high concern** on their own. It is also to enable an understanding of the undertaking's **material risks**, including exposure to those substances and risks arising from changes in regulations.
42. The disclosure required by paragraph 40 shall include the total amounts of **substances of concern** that are generated or used during the production or that are procured, and the total amounts of substances of concern that leave its facilities as emissions, as products, or as part of products or services split into main hazard classes of substances of concern.
43. The undertaking shall present separately the information for the total amount of **substances of very high concern**.

¹² Regulation (EC) No 166/2006 of the European Parliament and of the Council of 18 January 2006 concerning the establishment of a European Pollutant Release and Transfer Register and amending Council Directives 91/689/EEC and 96/61/EC (OJ L 033 4.2.2006, p. 1).

¹³ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #2 in Table 2 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (“Emissions of air pollutants”); by indicator #8 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (“Emissions to water”); by indicator #1 in Table 2 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (“Emissions of inorganic pollutants”); by indicator #3 in Table 2 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (“Emissions of ozone-depleting substances”).

Water and Marine Resources (E3)

Disclosure Requirements-Water and Marine Resources (E3)

Disclosure Requirement E3-1 – Water consumption

44. **The undertaking shall disclose information on its water consumption performance related to its material impacts and risks.**
45. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's **water consumption**.
46. The disclosure required by paragraph 44 relates to own operations and shall include:
 - (a) total water consumption in m³;
 - (b) total **water consumption** in m³ in areas at material water risk, including **areas of high-water stress**;
 - (c) total water recycled and **reused** in m³; ¹⁴
 - (d) total water stored and changes in storage in m³;
 - (e) any contextual information necessary regarding points (a) and (d), including the water basins' water quality and quantity, how the data have been compiled, such as any standards, methodologies, and assumptions used, including whether the information is calculated, estimated, modelled, or sourced from direct measurements, and the approach taken for this, such as of the use of any sector-specific sectors.
47. The undertaking shall provide information on its **water intensity**: total **water consumption** in its own operations in m³ per million EUR net revenue¹⁵.
48. Small and non-complex credit institutions (see Section 1 paragraph 2b)) may replace net revenue with a different financial indicator, until a sectoral standard is established.

Biodiversity and ecosystems (E4)

Disclosure Requirements-Biodiversity and ecosystems (E4)

Disclosure Requirement E4-1 – Impact metrics related to biodiversity and ecosystems change

49. **The undertaking shall report metrics related to its material impacts on biodiversity and ecosystems.**
50. The objective of this Disclosure Requirement is to enable an understanding of the performance of the undertaking against **impacts** identified as material in the **materiality assessment** on **biodiversity** and **ecosystems** change.
51. If the undertaking has identified owned, leased or managed **sites** located in or near **biodiversity-sensitive areas** which are negatively affected (see Section 2 AR 41) by the activity of those sites, the undertaking shall disclose the number and area (in hectares) of sites in or near these **protected areas** or key **biodiversity** areas.

¹⁴ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #6.2 in Table 2 of Annex 1 of the related Delegated Regulation regarding disclosure rules on sustainable investments ("Water usage and recycling", 2. Weighted average percentage of water recycled and reused by investee companies).

¹⁵ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #6.1 in Table 2 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Water usage and recycling", 1. Average amount of water consumed by the investee companies (in cubic meters) per million EUR of revenue of investee companies).

52. If the undertaking has identified material **impacts** with regards to land-use change, or impacts on the extent and condition of **ecosystems**, it may also disclose their land-use based on a Life Cycle Assessment.
53. If the undertaking has concluded that it directly contributes to the **impact drivers of land-use change, water-use change and/ or sea-use change**, the undertaking shall report relevant **metrics**. The undertaking shall consider its own operations and may disclose metrics that measure:
- (a) the conversion over time (e.g., 1 or 5 years) of land cover (e.g., **deforestation** or mining);
 - (b) changes over time (e.g., 1 or 5 years) in the management of the **ecosystem** (e.g., through the intensification of agricultural management, or the application of better management practices or forestry harvesting);
 - (c) changes in the spatial configuration of the landscape (e.g., fragmentation of **habitats**, changes in **ecosystem** connectivity);
 - (d) changes in **ecosystem** structural connectivity (e.g., habitat permeability based on physical features and arrangements of habitat patches); and
 - (e) the functional connectivity (e.g., how well genes or individuals move through land, **freshwater** and seascape).
54. The undertaking may disclose additional **metrics** related to the introduction of **invasive alien species** or the **ecosystem** condition and extent.

Resource use and Circular economy (E5)

Disclosure Requirements- Resource use and Circular Economy (E5)

Disclosure Requirement E5-1 – Resource inflows

55. **The undertaking shall disclose information on its resource inflows related to its material impacts and risks in the undertaking's own operations and along the value chain.**
56. The objective of this Disclosure Requirement is to enable an understanding of the impacts and risks originating from the resource use in the undertaking's own operations and value chain.
57. When an undertaking assesses that **resource inflows** is a material sustainability matter, it shall disclose a description of its impacts and risks originating from resource inflows used in the undertaking's own operations and along its upstream value chain.
58. When **resource inflows** are a material sustainability matter, the undertaking shall disclose for its own operations:
- (a) the percentage of its expenditure on resource inflows to own operations that are considered material;
 - (b) the percentage of biological materials that are sustainability certified as well as information on the certification scheme, and;
 - (c) the percentage of secondary material (recycled or **reused**) used as inflow.
59. The undertaking shall provide information on the methodologies used to calculate the data. It shall specify whether the data is sourced from direct measurement or estimations, and disclose the key assumptions used.

Disclosure Requirement E5-2 – Resource outflows

60. **The undertaking shall disclose information on its material resource outflows, including waste, related to its material impacts and risks.**

61. The objective of this Disclosure Requirements is to understand of how the undertaking contributes to **circular economy** through its product and material design in line with **circular economy** principles, as well as the undertaking's **waste** reduction and **waste management** strategy.

Products and materials

62. The undertaking shall provide a description of the key products and materials that come out of the undertaking's production process that are designed along circular economy principles.
63. The undertaking shall disclose the percentage of its products and services that are designed to be:
- (a) repairable and **reused**; and
 - (b) recycled.

Waste

64. The undertaking shall disclose the total amount of **waste** generated in its own operations, as well as the percentage of non-recycled waste (by weight and on a wet basis)¹⁶.
65. The undertaking shall disclose the total amount of hazardous **waste** by:
- (a) type of hazardous waste; and
 - (b) waste treatment type, in particular:
 - i. incineration.
 - ii. landfilling; and
 - iii. other disposal operations.
66. The undertaking shall also disclose the total amount of radioactive waste generated by the undertaking, where radioactive waste is defined in Article 3(7) of Council Directive 2011/70/Euratom¹⁷.
67. The undertaking shall provide contextual information, including information on the methodologies used to calculate the data and in particular the criteria and assumptions used to determine and classify products designed along circular principles.

Anticipated financial effects from material environmental-related matters other than climate (E6)

Disclosure Requirement E6 – Anticipated financial effects from material environmental-related matters other than climate

68. **The undertaking shall disclose its anticipated financial effects of material impacts and risks related to pollution, water and marine resources, biodiversity and ecosystems and circular economy, when the respective matter is material.**
69. The information required by paragraph 68 is in addition to the information on current financial effects on the entity's financial position, financial performance and cash flows for the reporting period required under ESRS 2 Section 2 SBM-3 paragraph 35 (c).
70. The objective of this Disclosure Requirement is to provide an understanding of:

¹⁶ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #13 in Table 2 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (, "Non-recycled waste ratio").

¹⁷ Council Directive 2011/70/Euratom of 19 July 2011 establishing a Community framework for the responsible and safe management of spent fuel and radioactive waste (OJ L 199, 2.8.2011, p. 48). This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #9 in Table I of Annex 1 of Commission Delegated Regulation (EU) 2022/1288 regarding disclosure rules on sustainable investments ("Hazardous waste and radioactive waste ratio").

- (a) **anticipated financial effects** due to **material risks** arising from **impacts** and **dependencies** related to pollution, water and **marine resources**, biodiversity and ecosystems and circular economy, and how these risks have (or could reasonably be expected to have) a material influence on the undertaking's financial position, financial performance and cash flows over the short-, medium- and long-term; and
 - (b) on a voluntary basis, **anticipated financial effects** due to material **opportunities** related to pollution, water and **marine resources**, biodiversity and ecosystems and circular economy.
71. The disclosure required by paragraph 68 shall include:
- (a) a quantification of the **anticipated financial effects** in monetary terms, or where not possible without undue cost or effort, qualitative information. The quantification of the anticipated financial effects in monetary terms may be a single amount or a range;
 - (b) a description of the effects considered, the related impacts and **dependencies** to which they relate and the time horizons in which they are likely to materialise; and
 - (c) the critical assumptions used to quantify the **anticipated financial effects**, as well as the sources and level of uncertainty attached to those assumptions.
72. For **anticipated financial effects** arising from material physical and transition risks, the undertaking shall refer to Disclosure Requirement E1-4 of this Section.
73. For **anticipated financial effects** arising from material climate-related **opportunities**, the undertaking shall refer to Disclosure Requirement E1-4 of this Section.

Appendix A: Application Requirements

This Appendix is an integral part of this Section of this [draft] Standard. It supports the application of the requirements set for in paragraphs 1 to 73 and has the same authority as the other parts of this [draft] Standard.

Application Requirements-Climate Change E1

Disclosure Requirement E1-1 – Energy consumption and mix

Calculation guidance

- AR 1. When preparing the information on energy consumption required under paragraph 6 the undertaking shall:
- (a) only report energy consumed from processes owned or controlled by the undertaking applying the same perimeter applied for reporting ***GHG Scopes 1 and 2 emissions***;
 - (b) exclude feedstocks and fuels that are not combusted for energy purposes. The undertaking that consumes fuel as feedstocks can disclose information on this consumption separately from the required disclosures;
 - (c) ensure all quantitative energy-related information is reported in either Mega-Watt-hours (MWh) in Lower Heating Value or net calorific value. If raw data of energy-related information is only available in energy units other than MWh (such as Giga-Joules (GJ) or British Thermal Units (Btu)), in volume units (such as cubic feet or gallons) or in mass units (such as kilograms or pounds), they shall be converted to MWh using suitable conversion factors (see for example Annex II of the Fifth Assessment IPCC report). Conversion factors for fuels shall be made transparent and applied in a consistent manner;
 - (d) ensure all quantitative energy-related information is reported as final energy consumption, referring to the amount of energy the undertaking actually consumes using for example the table in Annex IV of Directive 2012/27 of the European Parliament and of the Council¹⁸ on energy efficiency;
 - (e) avoid double counting fuel consumption when disclosing self-generated energy consumption. If the undertaking generates electricity from either a non-renewable or renewable fuel source and then consumes the generated electricity, the energy consumption shall be counted only once under fuel consumption;
 - (f) not offset energy consumption even if *onsite* generated energy is sold to and used by a third party;
 - (g) not count energy that is sourced from within the organisational boundary under “***purchased or acquired***” energy;
 - (h) account for steam, heat or cooling received as “waste energy” from a third party’s industrial processes under “***purchased or acquired***” energy;
 - (i) account for renewable hydrogen¹⁹ as a renewable fuel. Hydrogen that is not completely derived from renewable sources shall be included under “fuel consumption from other non-renewable sources”; and

¹⁸ Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (OJL 315, 14.11.2012, p. 1).

¹⁹ Compliant with the requirements in delegated acts for hydrogen from renewable sources: Commission delegated regulation of 10 February 2023 supplementing Directive (EU) 2018/2001 of the European Parliament and of the Council by establishing a Union methodology setting out detailed rules for the production of renewable liquid and gaseous transport fuels of non-biological origin; and Commission delegated regulation of 10 February 2023 supplementing Directive (EU) 2018/2001 of the European Parliament and of the Council by establishing a minimum threshold for greenhouse gas emissions savings of recycled carbon fuels and by specifying a methodology for assessing greenhouse gas emissions savings from renewable liquid and gaseous transport fuels of non-biological origin and from recycled carbon fuel.

- (j) adopt a conservative approach when splitting the electricity, steam, heat or cooling between renewable and non-renewable sources based on the approach applied to calculate market-based **Scope 2 GHG emissions**. The undertaking shall only consider these energy consumptions as deriving from renewable sources if the origin of the purchased energy is clearly defined in the contractual arrangements with its **suppliers** (renewable power purchasing agreement, standardised green electricity tariff, market instruments like Guarantee of Origin from renewable sources in Europe²⁰ or similar instruments like Renewable Energy Certificates in the US and Canada).

AR 2. The information on Energy consumption and mix may be presented using the following tabular format.

Energy consumption and mix	Comparative	Year N
(1) Fossil energy consumption (MWh)		
(2) Consumption from nuclear sources (MWh)		
(3) Consumption from renewable sources (MWh)		
Total energy consumption (MWh) (calculated as the sum of lines 1, 2 and 3)		

Energy intensity based on net revenue

Calculation guidance

AR 3. When preparing the information on energy intensity required under paragraph 12, the undertaking shall:

- (a) calculate the energy intensity ratio using the following formula:

$$\frac{\text{Total energy consumption from activities in high climate impact sectors (MWh)}}{\text{Net revenue from activities in high climate impact sectors (Monetary unit)}}$$

- (b) express the total energy consumption in MWh and the net revenue in monetary units (e.g., Euros);
- (c) the numerator and denominator shall only consist of the proportion of the total final energy consumption (in the numerator) and net revenue (in the denominator) that are attributable to activities in **high climate impact sectors**. In effect, there should be consistency in the scope of both the numerator and denominator;
- (d) calculate the total energy consumption in line with the requirement in paragraph 10;
- (e) calculate the net revenue in line with the accounting standards requirements applicable for the financial statements, i.e., IFRS 15 *Revenue from Contracts with Customers* or local GAAP requirements.

AR 4. The quantitative information may be presented in the following table.

Energy intensity per net revenue	Comparative	N	% N / N-1
Total energy consumption from activities in high climate impact sectors per net revenue from activities in high climate impact sectors (MWh/Monetary unit)			

²⁰ Based on Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources.

Connectivity of energy intensity based on net revenue with financial reporting information

- AR 5. The reconciliation of net revenue from activities in **high climate impact sectors** to the relevant financial statements line item or disclosure (as required by paragraph 11) may be presented either:
- (a) by a cross-reference to the related line item or disclosure in the financial statements; or
 - (b) If the net revenue cannot be directly cross-referenced to a line item or disclosure in the financial statements, by a quantitative reconciliation using the below tabular format.

Net revenue from activities in high climate impact sectors used to calculate energy intensity	
Net revenue (other)	
Total net revenue (Financial statements)	

Disclosure Requirements E1-2 – Gross Scopes 1, 2, 3 and Total GHG emissions

Calculation guidance

- AR 6. When preparing the information for reporting GHG **emissions** as required by paragraph 12, the undertaking shall:
- (a) consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004). The undertaking may consider Commission Recommendation (EU) 2021/2279²¹ or the requirements stipulated by ISO 14064-1:2018. If the undertaking already applies the GHG accounting methodology of ISO 1:2018, it shall nevertheless comply with the requirements of this standard (e.g., regarding reporting boundaries and the disclosure of market-based **Scope 2 GHG emissions**);
 - (b) disclose the methodologies, significant assumptions and emissions factors used to calculate or measure GHG emissions accompanied by the reasons why they were chosen, and provide a reference or link to any calculation tools used;
 - (c) include emissions of CO₂, CH₄, N₂O, HFCs, PFCs, SF₆, and NF₃. Additional GHG may be considered when significant; and
 - (d) use the most recent **Global Warming Potential (GWP)** values published by the IPCC based on a 100-year time horizon to calculate CO₂eq emissions of non-CO₂ gases.
- AR 7. In line with Section 1 chapter 3.7, the undertaking shall disaggregate information on its GHG emissions as appropriate. For example, the undertaking may disaggregate its Scope 1, 2, 3, or total GHG **emissions** by country, operating segments, economic activity, subsidiary, GHG category (CO₂, CH₄, N₂O, HFCs, PFCs, SF₆, NF₃, and other GHG considered by the undertaking) or source type (stationary combustion, mobile combustion, process emissions and fugitive emissions).
- AR 8. An undertaking might have a different reporting period from some or all of the entities in its value chain. In such circumstances, the undertaking is permitted to measure its GHG emissions in accordance with paragraph 12 using information for reporting periods that are different from its own reporting period if that information is obtained from entities in its value chain with reporting periods that are different from the undertaking's reporting period, on the condition that:

²¹ Commission Recommendation (EU) 2021/2279 of 15 December 2021 on the use of the Environmental Footprint methods to measure and communicate the life cycle environmental performance of products and organisations (OJ L 471, 30.12.2021, p.1).

- (a) the undertaking uses the most recent data available from those entities in its value chain to measure and disclose its greenhouse gas **emissions**;
- (b) the length of the reporting period is the same; and
- (c) the undertaking discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions) that occur between the reporting dates of the entities in its value chain and the date of the undertaking's general purpose financial statements.

AR 9. When preparing the information on gross **Scope 1 GHG emissions** required under paragraph 12(a), the undertaking shall:

- (a) calculate or measure **GHG emissions** from stationary combustion, mobile combustion, process emissions and fugitive emissions; and use suitable activity data that include the non-renewable fuel consumption;
- (b) use suitable and consistent emission factors;
- (c) disclose biogenic emissions of CO₂ from the combustion or biodegradation of biomass separately from the Scope 1 GHG emissions, but include emissions of other types of GHG (in particular CH₄ and N₂O);
- (d) not include any removals, or any purchased, sold or transferred **carbon credits** or GHG allowances in the calculation of **Scope 1 GHG emissions**;
- (e) for activities reporting under the EU ETS, report on Scope 1 emissions following the EU ETS methodology. The EU ETS methodology may also be applied to activities in geographies and sectors that are not covered by the EU ETS;

AR 10. When preparing the information on the percentage of **Scope 1 GHG emissions** from regulated emission trading schemes required under paragraph 13 (a), the undertaking shall:

- (a) consider GHG emissions from the **installations** it operates that are subject to regulated Emission Trading Schemes (ETS), including the EU-ETS, national ETS and non-EU ETS, if applicable;
- (b) only include emissions of CO₂, CH₄, N₂O, HFCs, PFCs, SF₆, and NF₃;
- (c) ensure the same accounting period for gross **Scope 1 GHG emissions** and GHG emissions regulated under the ETS; and
- (d) calculate the share by using the following formula:

$$\frac{\text{GHG emissions in (t CO}_2\text{eq) from EU ETS installations + national ETS installations + nonEU ETS installations}}{\text{Scope 1 GHG emissions (t CO}_2\text{eq)}}$$

AR 11. When preparing the information on gross **Scope 2 GHG emissions** required under paragraph 18, the undertaking shall:

- (a) consider the principles and requirements of the GHG Protocol Scope 2 Guidance (version 2015, in particular the Scope 2 quality criteria in chapter 7.1 relating to contractual instruments). It may also consider Commission Recommendation (EU) 2021/2279 or the relevant requirements for the quantification of **indirect GHG emissions** from imported energy in EN ISO 14064-1:2018;
- (b) include purchased or acquired electricity, steam, heat, and cooling consumed by the undertaking;
- (c) avoid double counting of **GHG emissions** reported under Scope 1 or 3;
- (d) apply the location-based, and, if applicable, market-based methods to calculate **Scope 2 GHG emissions** and provide information on the share and types of contractual instruments. Location-based method quantifies Scope 2 GHG emissions based on average energy generation emission factors for defined locations, including local, subnational, or national boundaries (GHG Protocol, "Scope 2 Guidance", Glossary, 2015). Market-based method quantifies Scope 2 GHG emissions based on GHG emissions emitted by the generators from which the reporting entity contractually purchases electricity bundled with instruments, or

unbundled instruments on their own (GHG Protocol, “Scope 2 Guidance”, Glossary, 2015); in this case, the undertaking may disclose the share of market-based scope 2 GHG emissions linked to purchased electricity bundled with instruments such as Guarantee of Origins or Renewable Energy Certificates. The undertaking shall provide information about the share and types of contractual instruments used for the sale and purchase of energy bundled with attributes about the energy generation or for unbundled energy attribute claims.

- (e) disclose biogenic emissions of CO₂ from the combustion or biodegradation of biomass separately from the Scope 2 GHG emissions but include emissions of other types of GHG (particularly CH₄ and N₂O). In case the emission factors applied do not separate the percentage of biomass or biogenic CO₂, the undertaking shall disclose this. In case GHG emissions other than CO₂ (particularly CH₄ and N₂O) are not available for, or excluded from, location-based grid average emissions factors or with the market-based method information, the undertaking shall disclose this; and
- (f) not include any removals, or any purchased, sold or transferred **carbon credits** or GHG allowances in the calculation of Scope 2 GHG emissions.

AR 12. When preparing the information on gross **Scope 3 GHG emissions** required under paragraph 19, the undertaking shall:

- (a) consider the principles and provisions of the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011); and it may consider Commission Recommendation (EU) 2021/2279 or the relevant requirements for the quantification of **indirect GHG emissions** from EN ISO 14064-1:2018;
- (b) if it is a financial institution, 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);
- (c) screen its total Scope 3 GHG emissions based on the 15 Scope 3 categories identified by the GHG Protocol Corporate Standard and GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011) using appropriate estimates. Alternatively, it may screen its **indirect GHG emissions** based on the categories provided by EN ISO 14064-1:2018 clause 5.2.4 (excluding indirect GHG emissions from imported energy);
- (d) identify and disclose its significant Scope 3 categories based on the magnitude of their estimated GHG emissions and other criteria provided by GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011, p. 61 and 65-68) or ISO 14064-1:2018 Annex H.3.2, such as financial spend, influence, related **transition risks** and **opportunities** or **stakeholder** views;
- (e) calculate or estimate GHG emissions in significant Scope 3 categories using suitable emissions factors;
- (f) update Scope 3 GHG emissions in each significant category every year on the basis of current activity data; update the full Scope 3 GHG inventory at least every 3 years or on the occurrence of a significant event or a significant change in circumstances (a significant event or significant change in circumstances can, for example, relate to changes in the undertaking’s activities or structure, changes in the activities or structure of its upstream and downstream value chain(s), a change in calculation methodology or in the discovery of errors);
- (g) disclose the extent to which the undertaking’s Scope 3 GHG emissions are measured using inputs from specific activities within the entity’s upstream and downstream value chain, and disclose the percentage of emissions calculated using primary data obtained from **suppliers** or other **value chain** partners;
- (h) for each significant Scope 3 GHG category, disclose the reporting boundaries considered, the calculation methods for estimating the GHG emissions as well as if and which calculation tools were applied. The Scope 3 categories should be consistent with the GHGP and include:

- i. indirect **Scope 3 GHG emissions** from the consolidated accounting group (the parent and its subsidiaries),
 - ii. indirect **Scope 3 GHG emissions** from associates, joint ventures, and unconsolidated subsidiaries for which the undertaking has the ability to control the operational activities and relationships (i.e., **operational control**),
 - iii. Scope 1, 2 and 3 GHG emissions from associates, joint ventures, unconsolidated subsidiaries (investment entities) and joint arrangements for which the undertaking does not have **operational control** and when these entities are part of the undertaking's upstream and downstream value chain.
- (i) disclose a list of **Scope 3 GHG emissions** categories included in;
 - (j) disclose biogenic emissions of CO₂ from the combustion or biodegradation of biomass that occur in its upstream and downstream **value chain** separately from the gross Scope 3 GHG emissions, and include emissions of other types of GHG (such as CH₄ and N₂O), and emissions of CO₂ that occur in the life cycle of biomass other than from combustion or biodegradation (such as GHG emissions from processing or transporting biomass) in the calculation of Scope 3 GHG emissions;
 - (k) not include any removals, or any purchased, sold or transferred **carbon credits** or GHG allowances in the calculation of **Scope 3 GHG emissions**;

AR 13. When preparing the information on the total **GHG emissions** required under paragraph 20, the undertaking shall:

- (a) apply the following formulas to calculate the total GHG emissions:

$$\begin{aligned}
 \text{Total GHG emissions}_{\text{location-based}} \text{ (t CO}_2\text{eq)} &= \text{Gross Scope 1} + \text{Gross Scope 2}_{\text{location-based}} + \text{Gross Scope 3 Total} \\
 \text{Total GHG emissions}_{\text{market-based}} \text{ (t CO}_2\text{eq)} &= \text{Gross Scope 1} + \text{Gross Scope 2}_{\text{market-based}} + \text{Gross Scope 3}
 \end{aligned}$$

- (b) disclose total **GHG emissions** with a distinction between emissions derived from the location-based and market-based methods applied while measuring the underlying Scope 2 GHG emissions.

AR 14. The undertaking shall disclose its total GHG **emissions** disaggregated by Scopes 1 and 2 and significant Scope 3 in accordance with the table below.

	Retrospective				Milestones and target years			
	Base year	Compa-rative	N	% N / N-1	2025	2030	(2050)	Annual % target / Base year
Scope 1 GHG emissions								
Gross Scope 1 GHG emissions (tCO ₂ eq)								
Percentage of Scope 1 GHG emissions from regulated emission trading schemes (%)								
Scope 2 GHG emissions								
Gross location-based Scope 2 GHG emissions (tCO ₂ eq)								
Gross market-based Scope 2 GHG emissions (tCO ₂ eq)								
Significant Scope 3 GHG emissions*								
Total Gross indirect (Scope 3) GHG emissions (tCO ₂ eq)								
1 Purchased goods and services								
Optional sub-category: Cloud computing and data centre services								
2 Capital goods								
3 Fuel and energy-related activities (not included in Scope 1 or Scope 2)								
4 Upstream transportation and distribution								
5 Waste generated in operations								
6 Business travels								
7 Employee commuting								
8 Upstream leased assets								
9 Downstream transportation								
10 Processing of sold products								
11 Use of sold products								
12 End-of-life treatment of sold products								
13 Downstream leased assets								
14 Franchises								
15 Investments								
Total GHG emissions								
Total GHG emissions (location-based) (tCO ₂ eq)								

Total GHG emissions
(market-based) (tCO₂eq)

AR 15. The Scope 3 GHG **emissions** may also be presented by according to the indirect emission categories defined in EN ISO 14064-1:2018.

AR 16. If it is material for the undertaking's Scope 3 emissions, it shall disclose the GHG **emissions** from purchased cloud computing and data centre services as a subset of the overarching **Scope 3 category** “upstream purchased goods and services”.

GHG intensity based on net revenue

Calculation guidance

AR 17. When disclosing the information on GHG intensity based on net revenue required under paragraph 21, the undertaking shall:

- (a) calculate the GHG intensity ratio by the following formula:

$$\frac{\text{Total GHG emissions (t CO}_2\text{eq)}}{\text{Net revenue (Monetary unit)'}}$$

- (b) express the total GHG **emissions** in metric tonnes of CO₂eq and the net revenue in monetary units (e.g., Euros) and present the results for the market-based and location-based method;
- (c) include the total GHG emissions in the numerator and overall net revenue in the denominator;
- (d) calculate the total GHG emissions as required by paragraphs 12 (d) and 21; and
- (e) calculate the net revenue in line with the requirements in accounting standards applied for financial statements, i.e., IFRS 15 or local GAAP.

Connectivity of GHG intensity based on revenue with financial reporting information

AR 18. The reconciliation of the net revenue used to calculate GHG intensity to the relevant line item or notes in the financial statements (as required by paragraph 22) may be done by either:

- (a) a cross-reference to the related line item or disclosure in the financial statements; or
- (b) if the net revenue cannot be directly cross-referenced to a line item or disclosure in the financial statements, by a quantitative reconciliation using the below tabular format.

Net revenue used to calculate GHG intensity	
Net revenue (other)	
Total net revenue (in financial statements)	

Disclosure Requirement E1-3 – GHG removals and GHG mitigation projects financed through carbon credits.

GHG removals and storage in own operations and the upstream and downstream value chain

AR 19. In addition to their GHG emission inventories, undertakings shall provide transparency on how and to what extent they either enhance natural sinks or apply technical solutions to remove GHGs from the atmosphere in their own operations and upstream and downstream value chain. While there are no generally accepted concepts and methodologies for accounting for GHG removals, this [draft] Standard aims to increase transparency on the undertaking's efforts to remove GHGs from the atmosphere (paragraphs 24(a) and 26). The

GHG removals outside the **value chain** that the undertaking supports through the purchase of **carbon credits** are to be disclosed separately as required by paragraphs 24 and 26.

AR 20. When disclosing the information on **GHG removals and storage** from the undertaking's own operations and its upstream and downstream **value chain** required under paragraphs 24(a) and 26, for each removal and storage activity, the undertaking may describe:

- (a) the GHGs concerned;
- (b) whether removal and storage are biogenic or from **land-use change** (e.g., afforestation, reforestation, forest restoration, urban tree planting, agroforestry, building **soil** carbon, etc.), technological (e.g., direct air capture), or hybrid (e.g., bioenergy with CO₂ capture and storage) and technological details about the removal, the type of storage and, if applicable, the transport of removed GHGs;
- (c) if applicable, a brief explanation of whether the activity qualifies as a nature-based solution; and
- (d) how the risk of non-permanence is managed, including determining and monitoring leakage and reversal events, as appropriate.

Calculation guidance

AR 21. When preparing the information on **GHG removals and storage** from the undertaking's own operations and its upstream and downstream **value chain** required under paragraphs 24(a) and 26, the undertaking may:

- (a) consider, as far as applicable, the GHG Protocol Corporate Standard (version 2004), Product Standard (version 2011), Agriculture Guidance (version 2014), Land use, **land-use change**, and forestry Guidance for GHG project accounting (version 2006);
- (b) apply consensus methods on accounting for GHG removals as soon as they are available, notably the EU regulatory framework for the certification of CO₂ removals;
- (c) if applicable, explain the role of removals for its **climate change mitigation policy**;
- (d) include removals from operations that it owns or controls, or contributes to and that have not been sold to another party through **carbon credits**;
- (e) if applicable, mark those GHG removal activities in own operations or the value chain that have been converted into **carbon credits** and sold to other parties on the voluntary market;
- (f) account for the GHG **emissions** associated with a removal activity, including transport and storage, under Disclosure Requirement E1-3 (Scopes 1, 2 or 3). To increase transparency on the efficiency of a removal activity, including transport and storage, the undertaking may disclose the GHG emissions associated with this activity (e.g., GHG emissions from electricity consumption of direct air capture technologies) alongside, but separately from, the amount of removed GHG emissions;
- (g) in case of a reversal, account for the respective GHG emissions as an offset for the removals in the reporting period;
- (h) use the most recent **GWP** values published by the IPCC based on a 100-year time horizon to calculate CO₂eq emissions of non-CO₂ gases and describe the assumptions made, methodologies and frameworks applied for calculation of the amount of GHG removals; and
- (i) consider nature-based solutions.

AR 22. The undertaking shall disaggregate and separately disclose the **GHG removals** that occur in its own operations and those that occur in its upstream and downstream value chain. GHG removal activities in the upstream and downstream **value chain** shall include those that the undertaking is actively supporting, for example, through a cooperation project with a **supplier**. The undertaking is not expected to include GHG removals that may occur in its upstream and downstream value chain that it is not aware of.

AR 23. The quantitative information on GHG removals may be presented by using the following tabular format.

Removals	Comparative	N	% N / N-1
GHG removal activity 1 (e.g., forest restoration)	-		
GHG removal activity 2 (e.g., direct air capture)	-		
...	-		
Total GHG removals from own operations (tCO₂eq)			
GHG removal activity 1 (e.g., forest restoration)	-		
GHG removal activity 2 (e.g., direct air capture)	-		
...	-		
Total GHG removals in the upstream and downstream value chain (tCO₂eq)			
Reversals (tCO₂eq)			

GHG mitigation projects financed through carbon credits

AR 24. Financing GHG **emission reduction** projects outside the undertaking’s **value chain** through purchasing **carbon credits** that fulfil high-quality standards can be a useful contribution towards mitigating climate change. This [draft] Standard requires the undertaking to disclose whether it uses **carbon credits** separately from the GHG **emissions** (paragraphs 24(b) and 27) and GHG **emission reduction targets** (Section 3 [draft] LSME ESRS). It also requires the undertaking to show the extent of use and which quality criteria it uses for those carbon credits.

AR 25. When disclosing the information on **carbon credits** required under paragraphs 24(b) and 27, the undertaking shall disclose the following disaggregation as applicable:

- (a) the share (percentage of volume) of reduction projects and removal projects;
- (b) for carbon credits from removal projects, an explanation whether they are from biogenic or technological sinks;
- (c) the share (percentage of volume) for each recognised quality standard;
- (d) the share (percentage of volume) issued from projects in the EU; and
- (e) the share (percentage of volume) that qualifies as a corresponding adjustment under Article. 6 of the Paris Agreement.

Calculation guidance

AR 26. When preparing the information on **carbon credits** required under paragraphs 24(b) and 26, the undertaking shall:

- (a) Consider recognised quality standards;
- (b) if applicable, explain the role of carbon credits in its **climate change mitigation policy**;

- (c) not include carbon credits issued from GHG **emission reduction** projects within its **value chain** as the respective GHG emission reductions shall already be disclosed under Disclosure Requirement E1-3 (Scope 2 or Scope 3) at the time they occur (i.e., double counting is avoided);
- (d) not include carbon credits from **GHG removal** projects within its value chain as the respective GHG removals may already be accounted for under Disclosure Requirement E1-4 at the time they occur (i.e., double counting is avoided);
- (e) not disclose carbon credits as an offset for its GHG **emissions** under Disclosure Requirement E1-6 on GHG emissions;
- (f) not disclose carbon credits to reach the GHG emission reduction **targets** disclosed under Disclosure Requirement E1-4; and
- (g) calculate the amount of carbon credits to be cancelled in the future, as the sum of carbon credits in metric tonnes of CO₂eq over the duration of existing contractual agreements.

AR 27. The information on **carbon credits** cancelled in the reporting year and planned to be cancelled in the future may be presented using the following tabular formats.

Carbon credits cancelled in the reporting year	Comparative	N
Total (tCO ₂ eq)		
Share from removal projects (%)		
Share from reduction projects (%)		
<i>Recognised quality standard 1 (%)</i>		
<i>Recognised quality standard 2 (%)</i>		
<i>Recognised quality standard 3 (%)</i>		
...		
Share from projects within the EU (%)		
Share of carbon credits that qualify as corresponding adjustments (%)		

Carbon credits planned to be cancelled in the future	Amount until [period]
Total (tCO ₂ eq)	

Disclosure Requirement E1-4 – Anticipated financial effects from material physical and transition risks and potential climate-related opportunities

Anticipated financial effects from material physical and transition risks

- AR 28. Material climate-related **physical risks** and **transition risks** may affect the undertaking's financial position (e.g., owned assets, financially controlled leased assets, and liabilities), performance (e.g., potential future increase/decrease in net revenue and costs due to business interruptions, increased supply prices resulting in potential margin erosions), and cash flows. The low probability, high severity and long-term time horizons of some climate-related physical risk exposures and the uncertainty arising from the transition to a sustainable economy mean that there will be associated material **anticipated** financial effects that are outside the scope of the requirements of applicable accounting standards.
- AR 29. Currently, there is no commonly accepted methodology to assess or measure how material **physical risks** and **transition risks** may affect the undertaking's future financial position, financial performance and cash flows. Therefore, the disclosure of the financial effects (as required by paragraphs 29, 31 and 32) will depend on the undertaking's internal methodology and the exercise of significant judgement in determining the inputs, and assumptions needed to quantify and where applicable describe the **anticipated financial effects**.

Calculation guidance - Anticipated financial effects from material physical risks

- AR 30. When disclosing the information required under paragraphs 29(a) and 31, the undertaking shall explain whether and how:
- (a) it assessed the **anticipated financial effects** for assets and business activities at material physical risk, including the scope of application, time horizons, calculation methodology, critical assumptions and parameters and limitations of the assessment; and
 - (b) the assessment of assets and business activities considered to be at material **physical risk** relies on or is part of the process to determine material physical risk as required under paragraphs 18(b) and AR 12 and to determine climate **scenarios** as required under paragraphs 19 and AR 13 to AR 14. It shall explain how it has defined medium- and long-term time horizons and how these definitions are linked to the expected lifetime of the undertaking's assets, strategic planning horizons and capital allocation plans.
- AR 31. When preparing the information on assets at material physical risk that is required to be disclosed under paragraph 31(a), the undertaking shall:
- (a) Calculate the assets at material physical risk in terms of monetary amount and as a proportion (percentage) of total assets at the reporting date (i.e., the proportion is an estimate of the carrying value of assets at material physical risk divided by total carrying value as stated in the statement of financial position or balance sheet). The estimate of assets at material physical risk shall be derived starting from the assets recognised in the financial statements. The estimate of monetary amounts and proportion of assets at physical risk may be presented as either a single amount or range.
 - (b) All types of assets including finance-lease / right-of-use assets shall be considered when determining the assets at material physical risk.
 - (c) To contextualise this information, the undertaking shall:
 - i. disclose the location of its significant assets at material physical risk. Significant assets located²²in the EU territory shall be aggregated by NUTS codes 1 level digits (Nomenclature of Territorial Units for Statistics). For significant assets located outside EU territory, the breakdown by NUTS code will only be provided where applicable.

²² This disclosure requirement is consistent with the requirements of EBA Pillar 3 ITS- [Template 5 exposures subjects to physical risk](#)

- ii. disaggregate the monetary amounts of assets at risk by acute and chronic physical risk²³.
 - (d) calculate the share of assets at material physical risk resulting from paragraph AR 31 (a) that is addressed by the **climate change adaptation actions** based on the information disclosed under Disclosure Requirement 11 (IR-3) – *Policies and actions in relation to sustainability matters* (Section 3).
- AR 32. When preparing the information required under paragraph 31(a), the undertaking may assess and disclose the share of net revenue from business activities at physical risk. This disclosure:
- (a) shall be based on the net revenue in line with the requirements in accounting standards applied for financial statements, i.e., IFRS 15 or local GAAP.
 - (b) may include a breakdown of the undertaking's business activities with the corresponding details of the associated percentage of total net revenue, the risk factors (hazards, exposure and sensitivity) and, if possible, the magnitude of the **anticipated financial effects** in terms of margin erosion over the short-, medium- and long-term time horizons. The nature of business activities may also be disaggregated by operating segments if the undertaking has disclosed the contribution of margins by operational segments in its segment reporting in the financial statements.

Calculation guidance - Anticipated financial effects from transition risk

- AR 33. When disclosing the information required under paragraphs 29(b) and 32(a), the undertaking shall explain whether and how:
- (a) it has assessed the potential effects on future financial performance and position for assets and business activities at material transition risk, including the scope of application, calculation methodology, critical assumptions and parameters, and limitations of the assessment; and
 - (b) the assessment of assets and business activities considered to be at material transition risk relies on or is part of the process to determine material **transition risks** as described under AR 35(b), AR 37, AR 39, and AR 40 of [draft] Section 2 (Disclosure Requirement 9 (IR-1) *Description of the processes to identify and assess material impacts and risks*) and to determine **scenarios** as required under AR 39 to AR 40. It shall explain how it has defined medium- and long-term time horizons and how these definitions are linked to the expected lifetime of the undertaking's assets, strategic planning horizons and capital allocation plans.
- AR 34. When disclosing the information on assets at material transition risk as required under paragraphs 32(a) and (b):
- (a) the undertaking shall at the very least include an estimate of the amount of potentially stranded assets (in monetary amounts and as a proportion/percentage) from the reporting year until 2030 and from 2030 to 2050. Stranded assets are understood as active or firmly planned key assets of the undertaking with significant **locked-in GHG emissions** over their operating lifetime. Firmly planned key assets are those that the undertaking will most likely deploy within the next five years. The amount may be expressed as a range of asset values based on different climate and **policy scenarios**, including a scenario aligned with limiting climate change to 1.5°C.
 - (b) the undertaking may disclose a breakdown of the carrying value of its real estate assets, including rights-of-use assets, by energy efficiency classes. The energy efficiency shall be represented in terms of either the ranges of energy consumption in kWh/m² or the EPC²⁴ (Energy Performance Certificate)²⁵ label class. If the undertaking cannot obtain this information on a best-effort basis, it shall disclose the

²³ Ibid

²⁴ Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings (OJ L 153, 18.6.2010, p. 13).

²⁵ This disclosure requirement is consistent with the requirements of EBA Pillar 3 ITS- Template 2 immovable property, energy efficiency of the collateral

total carrying amount of the real estate assets for which the energy consumption is based on internal estimates.

- (c) the undertaking shall calculate the proportion (percentage) of total assets (including finance lease/right-of-use assets) at material transition risk addressed by the **climate change mitigation actions** based on the information disclosed under Disclosure Requirement E1-3. The total assets amount is the carrying amount on the balance sheet as of the reporting date.

AR 35. When disclosing the information on potential liabilities from material **transition risks** required under paragraph 32(d):

- (a) undertakings that operate **installations** regulated under an emission trading scheme may include a range of potential future liabilities originating from these schemes;
- (b) undertakings subject to the EU ETS, may disclose the potential future liabilities that relate to their allocation plans for the period before and until 2030. The potential liability may be estimated based on:
 - i. the number of allowances held by the undertaking at the beginning of the reporting period;
 - ii. the number of allowances to be purchased in the market yearly, i.e., before and until 2030;
 - iii. the gap between estimated future **emissions** under various transition **scenarios** and free allocations of allowances that are known for the period until 2030; and
 - iv. the estimated yearly cost per tonne of CO₂ for which an allowance needs to be purchased;
- (c) In assessing its potential future liabilities, the undertaking may consider and disclose the number of Scope 1 GHG emission allowances within regulated emission trading schemes and the cumulative number of emission allowances stored (from previous allowances) at the beginning of the reporting period;
- (d) undertakings disclosing volumes of **carbon credits** planned to be cancelled in the near future (Disclosure Requirement E1-7) may disclose the potential future liabilities associated with those based on existing contractual agreements;
- (e) the undertaking may also include its monetised gross Scope 1, 2 and total GHG **emissions** (in monetary units) calculated as follows:
 - i. monetised Scope 1 and 2 GHG emissions in the reporting year by the following formula:

$$\left(\text{gross Scope 1 GHG emissions (t CO}_2\text{eq)} + \text{gross Scope 2 GHG emission (t CO}_2\text{eq)} \right) \times \text{GHG emission cost rate} \left(\frac{\text{€}}{\text{t CO}_2\text{eq}} \right)$$

- ii. monetised total GHG emissions in the reporting year by the following formula:

$$\text{Total GHG emissions (t CO}_2\text{eq)} \times \text{GHG emission cost rate} \left(\frac{\text{€}}{\text{t CO}_2\text{eq}} \right)$$

- iii. by use of a lower, middle and upper cost rate²⁶ for GHG emissions (e.g., market carbon price and different estimates for the societal costs of carbon) and reasons for selecting them.

AR 36. Other approaches and methodologies may be applied to assess how **transition risks** may affect the future financial position of the undertaking. In any case, the disclosure of

²⁶ The cost rate is the factor used to convert non-monetary impacts like tonnes, hectares, m³ etc. into monetary units. Cost rates should be based on monetary valuation studies, need to be science-based and the methods used to obtain them transparent. Guidance on these methods can be obtained, e.g., from the EU-LIFE project, TRANSPARENT (see recital (38) of the draft CSRD).

anticipated financial effects shall include a description of the methodologies and definitions used by the undertaking.

AR 37. When preparing the information required under paragraph 32(e), the undertaking may assess and disclose the share of net revenue from business activities at **transition risks**. This disclosure:

- (a) shall be based on the net revenue in line with the requirements in accounting standards applied for financial statements, i.e., IFRS 15 or local GAAP.
- (b) may include a breakdown of the undertaking's business activities with the corresponding details of the associated percentage of current net revenue, risk factors (events and exposure), and when possible, the **anticipated financial effects** related to margin erosion over the short-, medium- and long-term. The nature of business activities may also be disaggregated by operating segments if the undertaking has disclosed the contribution of margins by operational segments in its segment reporting in the financial statements.

Connectivity with financial reporting information

AR 38. The reconciliation of the significant amount of assets, liabilities, and net revenue (vulnerable to either material **physical risks** or **transition risks**) to the relevant line item or disclosure (e.g., in segment reporting) in the financial statements (as required by paragraph 33) may be presented by the undertaking as follows:

- (a) as a cross-reference to the related line item or disclosure in the financial statements if these amounts are identifiable in the financial statements; or
- (b) If these cannot be directly cross-referenced, as a quantitative reconciliation of each to the relevant line item or disclosure in the financial statement using the below tabular format:

Carrying amount of assets or liabilities or net revenue vulnerable to either material physical or transition risks	
Adjusting items	
Assets or liabilities or net revenue in the financial statements	

AR 39. The undertaking shall ensure the consistency of data and assumptions to assess and report the **anticipated financial effects** from material **physical risks** and **transition risks** in the sustainability statement with the corresponding data and assumptions used for the financial statements (e.g., carbon prices used for assessing impairment of assets, the useful life of assets, estimates and provisions). The undertaking shall explain the reasons for any inconsistencies (e.g., if the full financial implications of climate-related risks are still under assessment or are not deemed material in the financial statements).

AR 40. For potential future effects on liabilities (as required by paragraph 32(d)), if applicable, the undertaking shall cross-reference the description of the emission trading schemes in the financial statements.

Climate-related opportunities

AR 41. When disclosing the information under paragraph 35 (a), the undertaking may explain the nature of the cost savings (e.g., from reduced energy consumption), the time horizons and the methodology used, including the scope of the assessment, critical assumptions, and limitations, and whether and how **scenario analysis** was applied.

AR 42. When disclosing the information required under paragraph 35 (b), the undertaking may explain how it has assessed the market size or any expected changes to net revenue from low-carbon products and services or adaptation solutions including the scope of the assessment, the time horizon, critical assumptions, and limitations and to what extent this market is accessible to the undertaking. The information on the market size may be put in perspective to the current taxonomy-aligned revenue disclosed under the provisions of Regulation (EU) 2020/852. The entity may also explain how it will pursue its climate-related

opportunities and, where possible, this should be linked to the disclosures on **policies**, **targets** and **actions** under Disclosure Requirements E1-2, E1-3 and E1-4.

Application Requirements-Pollution (E2)

Disclosure Requirement E2-1 – Pollution of air, water and soil

- AR 43. The information to be provided on microplastics under paragraph 38(b) shall include microplastics that have been generated or used during production processes or that are procured, and that leave the undertaking's facilities as emissions, as products, or as part of products or services. Microplastics may be unintentionally produced when larger pieces of plastics like car tires or synthetic textiles wear and tear or may be deliberately manufactured and added to products for specific purposes (e.g., exfoliating beads in facial or body scrubs).
- AR 44. The volume of **pollutants** shall be calculated and presented for the aggregated amount of each pollutant individually, but the mass of different pollutants shall not be added together. For example, an undertaking with two factories that emit mercury and lead, shall add the lead emission from the two factories, but not add lead and mercury emissions. The units of reporting shall be appropriate mass units, for example in tonnes or kilogrammes, depending on type and quantities of the pollutant.
- AR 45. The **metrics** to be disclosed under paragraph 38(a) refer to information that the undertaking is already mandated to provide by law. This requirement was conceived to avoid any additional reporting burden on undertakings. In general, this requirement is expected to apply to undertakings that are operators of one industrial **installation** covered by the Industrial Emissions Directive (IED). The IED applies to some 52,000 installations in Europe covering activities such as burning fuel in boilers with rated power of more than 50 MW, metal foundries, processing of non-ferrous metals, production of lime, manufacture of ceramic products by firing, production of plant protection products or biocides, tanning of hides, or slaughterhouses. In these cases, the installation already has to report to the competent authority the pollutants released to air, water and **soil**, and the data is publicly available at the European Pollutant Release and Transfer Register (E-PRTR). Companies that operate more than one facility, do not have to report on their consolidated company-wide emissions under the EPRTR, as they report only at facility level. This disclosure requirement requires to report the total amount of all the facilities. Similarly, companies owning but not operating a facility, do not have to report to the EPRTR but are expected to reflect their facility-owned emissions in their sustainability statement.
- AR 46. The information required under this Disclosure Requirement shall be provided at the level of the reporting undertaking. However, the undertaking may disclose additional breakdown including information at **site** level or a breakdown of its **emissions** by type of source, by sector or by geographical area.

Contextual information

- AR 47. The information provided under this Disclosure Requirement may refer to information the undertaking is already required to report under other existing legislation (i.e., IED or E-PRTR).
- AR 48. Where the undertaking's activities are subject to Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions (IED)²⁷ and relevant Best Available Techniques Reference Documents (**BREFs**), irrespective of whether the activity takes place within the European Union or not, the undertaking may disclose the following additional information:
- (a) a list of **installations** operated by the undertaking that fall under the IED and EU **BAT Conclusions**;
 - (b) a list of any non-compliance **incidents** or enforcement **actions** necessary to ensure compliance in case of breaches of permit conditions;
 - (c) the actual performance, as specified in the **EU-BAT conclusions** for industrial **installations**, and comparison of the undertaking's environmental performance

²⁷ Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control) (OJ L 334, 17.12.2010, p. 17).

against “emission levels associated with the best available techniques” the (**BAT-AEL**) as described in EU-BAT conclusions;

- (d) the actual performance of the undertaking against “environmental performance levels associated with the **best available techniques (BAT-AEPLs)** provided that they are applicable to the sector and **installation**; and
- (e) a list of any compliance schedules or derogations granted by competent authorities according to Art. 15(4) Directive 2010/75/EU that are associated with the implementation of **BAT-AELs**.

Methodologies

- AR 49. When providing information on **pollutants**, the undertaking shall consider approaches for quantification in the following order of priority:
- (a) direct measurement of emissions, effluents or other **pollution** through the use of recognised continuous monitoring systems (e.g., AMS Automated Measuring Systems);
 - (b) periodic measurements;
 - (c) calculation based on **site**-specific data;
 - (d) calculation based on published pollution factors; and
 - (e) estimation.
- AR 50. Regarding the disclosure of methodologies required by paragraph 39, the undertaking shall consider:
- (a) whether its monitoring is carried out in accordance with EU **BREF** Standards or another relevant reference benchmark; and
 - (b) whether and how the calibration tests of the AMS were undertaken and the verification of periodic measurement by independent labs were ensured.
- AR 51. The amounts referred in paragraph 38 shall include the emissions from those facilities over which the undertaking has financial control and those over which it has **operational control**. It shall include only the emissions from facilities for which the applicable threshold value specified in Annex II of Regulation (EC) No 166/2006 is exceeded.
- AR 52. When disclosing the information required under paragraph 39, when an inferior methodology compared to direct measurement of **emissions** is chosen to quantify emissions, the reasons for choosing this inferior methodology shall be outlined by the undertaking. If the undertaking uses estimates, it shall disclose the standard, sectoral study or sources which form the basis of its estimates, as well as the possible degree of uncertainty and the range of estimates reflecting the measurement uncertainty.

Disclosure Requirement E2-2 – Substances of concern and substances of very high concern

List of **substances** to be considered:

- AR 53. In order for the information to be complete, **substances** in the undertaking’s own operations and those procured shall be included (e.g., embedded in ingredients, semi-finished products, or the final product).
- AR 54. The volume of **pollutants** shall be presented in mass units, for example tonnes or kilogrammes or other mass units appropriate for the volumes and type of pollutants being released.

Contextual information

- AR 55. The information provided under this Disclosure Requirement may refer to information the undertaking is already required to report under other existing legislation (i.e., Directive 2010/75/EU or Regulation (EC) No 166/2006 “E-PRTR”).

Application Requirements-Water and Marine Resources (E3)

Disclosure Requirement E3-1 – Water consumption

AR 56. When disclosing contextual information on water management performance required by paragraph 44, the undertaking shall explain the calculation methodologies and the share of the measure obtained from direct measurement, from sampling and extrapolation, or from best estimates.

Application Requirements-Biodiversity and ecosystems (E4)

Disclosure Requirement E4-1 – Impact metrics related to biodiversity and ecosystems change

AR 57. Managed **sites** are specific locations of one or more physical **installations**, which the undertaking manages. In certain cases, there may be more than one physical installation from the same or different owners or operators and certain infrastructure and facilities may be shared. In these cases, the entire area where the physical installation is located may constitute a site.

AR 58. When preparing the information required under this [draft] Disclosure Requirement, the undertaking shall briefly describe the **metrics** and methodologies used including:

- (a) why these were selected;
- (b) their organizational scope (undertaking, site, brand, commodity, corporate business unit, activity), operational scope (entire **value chain**, upstream or downstream value chain, or own operations and leased assets) and geographical scope (geographies covered by the metrics);
- (c) if metrics are species specific or **ecosystem** specific;
- (d) an indication of which **actions** are measured and monitored via the metrics and how they relate to the achievement of targets.

AR 59. The undertaking may also disclose:

- (a) how the metrics integrate **ecological thresholds** (e.g., the biosphere integrity and land-system change **planetary boundaries**) and allocations;
- (b) the frequency of monitoring, key indicators being monitored, and the baseline condition/value and baseline year/period, as well as the reference period;
- (c) other methodological aspects such as if the parametrisation of these metrics rely on primary data, secondary data, modelled data or on expert judgement, or a mixture of these;
- (d) whether metrics are mandatory (based on legislation) or voluntary. If they are mandatory, the undertaking may consider listing the relevant legislation; if voluntary, refer to the voluntary standard/procedure used; and
- (e) whether the metrics are informed by or correspond to expectations or recommendations of relevant and authoritative national, EU-level or intergovernmental guidelines, policies, legislation or agreements, such as the Convention for **Biological Diversity** (CBD) and IPBES.

AR 60. Methodologies available to collect data and measure the undertakings' **impacts** on **biodiversity** and **ecosystems** may be separated into three categories as follows:

- (a) primary data: collected in situ using on the ground surveys;
- (b) secondary data: including geospatial data layers that are overlaid with geographic location data of business activities:
 - i. at the species level, data layers on the ranges of different species can be used to predict the species that may be present at different locations. This

includes operation **sites** and sourcing locations. Different range layers will have differing levels of accuracy depending on certain factors (e.g., whether species ranges have been refined based on availability of **habitat**). Information on the threat status of the species, and the activities that threaten them, can provide an indication of the likely contribution that business activities may be having on driving population trends and threat status;

- ii. at the ecosystem level, data layers reflecting change in the extent and condition of ecosystems can be applied, including levels of **habitat fragmentation** and connectivity;
 - (c) modelled biodiversity state data: Model-based approaches are commonly used for measuring **ecosystem** level indicators (e.g., extent, condition, or function). Models quantify how the magnitude of different pressures affects the state of biodiversity. These are referred to as pressure-state relationships and are based on globally collected data. Modelling results are applied locally to estimate how undertaking-level pressures will cause changes in ecosystem condition. An impact driver generally has three main characteristics: magnitude (e.g., amount of contaminant, noise intensity), spatial extent (e.g., area of land contaminated) and temporal extent (duration of persistence of contaminant).
- AR 61. With regard to life cycle assessment for land-use, the undertaking may refer to the “Land-use related environmental indicators for Life Cycle Assessment” by the Joint Research Center.
- AR 62. With regard to the introduction of invasive alien species, the undertaking may disclose the pathways and number of **invasive alien species** and the extent of surface covered by invasive alien species.
- AR 63. With regard to **metrics** on the extent and condition of **ecosystems**, useful guidance can be found in the work of the United Nations System of Environmental Economic Accounting Ecosystem Accounting (UN SEEA EA).
- AR 64. The undertaking may disclose in units of area (e.g., m² or ha) on land-use using guidance provided by the Eco-Management and Audit Scheme (EMAS)²⁸:
- (a) total use of land;
 - (b) total sealed area;
 - (c) total nature-oriented area on **site**; and
 - (d) total nature-oriented area off site.
- AR 65. The undertaking may disclose, for example, land cover change, which is the physical representation of the drivers “habitat modification” and “industrial and domestic activities”, i.e., the man-made or natural change of the physical properties of Earth’s surface at a specific location.
- AR 66. Land cover is a typical variable that can be assessed with earth observation data.
- AR 67. When reporting on material **impacts** related to the **ecosystems**, the undertaking may, in addition to the extent and condition of ecosystems, also consider the functioning of ecosystems by using:
- (a) a metric that measures a process or function that the **ecosystem** completes, or that reflects the ability of the ecosystem to undertake that specific process or function: e.g., net primary productivity, which is a measure of plant productivity based on the rate at which energy is stored by plants and made available to other species in the ecosystem. It is a core process that occurs for ecosystems to function. It is related to many factors, such as species diversity, but does not measure these factors directly; or

²⁸ As proposed by the COMMISSION REGULATION (EU) 2018/ 2026 of 19 December 2018 amending Annex IV to Regulation (EC) No 1221/2009 of the European Parliament and of the Council on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS).

- (b) a metric that measures changes to the population of scientifically identified species under threat.

AR 68. At the **ecosystem** level, data layers reflecting change in the extent and condition of **ecosystems** may be applied, including levels of **habitat fragmentation** and connectivity.

Application Requirements- Resource use and Circular Economy (E5)

Disclosure Requirement E5-1 – Resource inflows

- AR 69. The disclosure required by paragraph 57, a description of **resource inflows** used in the undertaking's own operations and along its upstream value chain, may distinguish between: a) materials, including: i) raw materials, distinguishing between critical raw materials and rare earths; ii) **associated process materials**; iii) semi-manufactured goods or parts; b) products, including several categories such as **packaging**, IT equipment, textiles, furniture, buildings, heavy machinery, mid-weight machinery, light machinery, heavy transport, mid-weight transport, light transport and warehousing equipment; c) water; c) property, plant and equipment. When describing the relevant resource inflows that generate IROs, the undertaking shall explain what type it is referring to. Examples include raw materials (e.g. wood, ores), products (e.g. machinery), goods, semi-manufactured goods, or parts used as input into its products and services (e.g. electronic components).
- AR 70. The **resource inflows** to be considered for calculation of **metrics** mentioned in paragraphs 58 (a) to (c) are the ones considered to expose the undertaking to material impacts or and not all resource inflows the undertaking is sourcing.
- AR 71. The denominator of the percentage indicator required under paragraphs 58(b) and (c) is the overall total weight of materials (as referred in previous AR) used during the reporting period.
- AR 72. When the undertaking is subject to paragraph 58, it may also provide transparency on the materials that are sourced from **byproducts/waste** stream (e.g., offcuts of a material that has not previously been in a product).
- AR 73. The reported usage data are to reflect the material in its original state, and not to be presented with further data manipulation, such as reporting it as "dry weight".
- AR 74. In cases where there is an overlap between categories of reused and recycled, the undertaking shall specify how double counting was avoided and the choices that were made.

Disclosure Requirement E5-2 - Resource outflows

- AR 75. Products and materials information to be provided under paragraph 62 refer to all products and materials that come out of the undertaking's production process and that a company puts on the market (including **packaging**).
- AR 76. The undertaking may disclose its engagement in product end-of-life **waste management**, for example through extended producer responsibility schemes or take-back schemes.
- AR 77. When considering the **waste** streams relevant to its sectors or activities, the undertaking may consider the list of waste descriptions from the European Waste Catalogue.
- AR 78. Examples of other types of disposal operations under paragraph 65 (iii) can be found in Annex I of Directive 2008/98/EC (Waste Framework Directive).
- AR 79. When providing contextual information under paragraph 64 the undertaking may:
- (a) explain the reasons for high weights of **waste** directed to disposal (e.g., local regulations that prohibit landfilling of specific types of waste);
 - (b) describe sector practices, sector standards, or external regulations that mandate a specific disposal operation; and

- (c) specify whether the data has been modelled or sourced from direct measurements, such as waste transfer notes from contracted waste collectors.

Application Requirements - Anticipated financial effects from material environmental-related matters impacts and risks other than climate (E6)

Disclosure Requirement E6 – Anticipated financial effects from material environmental-related matters other than climate

- AR 80. The undertaking may include an assessment of its related products and services at risk over the short, medium and long-term, explaining how these are defined, how financial amounts are estimated, and which critical assumptions are made.
- AR 81. The undertaking may to consider as part of its ***anticipated financial effects*** related to pollution:
 - (a) Operating and capital expenditures related to ***incidents*** and ***deposits***, which may include: i) costs of eliminating and remediating the respective ***pollution*** of air, water and ***soil*** including environmental protection; ii) damage compensation costs including payment of fines and penalties imposed by regulators or government authorities.
 - (b) Costs related to the management of ***incidents*** which may include interruptions of production, whether arising from the ***supply chain*** and/or from own operations, which resulted in ***pollution***.

ESRS LSME ED – SECTION 5 SOCIAL

DISCLAIMER

Section 5 *Social* is set out in paragraphs 1–54. The following appendices of Section 5 have the same authority as the main body of the [draft] Standard:

- *Appendix A: Application Requirements,*
- *Appendix A.1: Application Requirements for Section 2 related disclosures,*
- *Appendix A.2: Application Requirements for IR-3 on Policies related to own workforce,*
- *Appendix A.3: Application Requirements for IR–3 on Actions and resources to manage material impacts on own workforce, and approaches to mitigating material risks related to own workforce, and effectiveness of those actions,*
- *Appendix A.4: Application Requirements for Voluntary Disclosure IR–4 Targets related to managing material negative impacts and material risks*

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Objective

1. The objective of this [draft] Section is to specify disclosure requirements which will enable **users** of the **sustainability statement** to understand:
 - (a) how the undertaking affects its own workforce, workers in its **value chain, affected communities** and **consumers** and end-users; in terms of material negative actual or potential **impacts**;
 - (b) any **actions** taken, and the result of such actions, to prevent, mitigate or remediate actual or potential negative **impacts**, and to address **risks**;
 - (c) the nature, type and extent of the undertaking's **material risks** on its own workforce, workers in its **value chain, affected communities** and **consumers** and end-users; and how the undertaking manages them;
 - (d) the **financial effects** on the undertaking over the short-, medium- and long-term of **material risks** arising from the undertaking's **impacts** and **dependencies** on its own workforce, workers in its **value chain, affected communities** and **consumers** and end-users.
2. These [draft] Disclosure Requirements also require the provision of an explanation by the undertaking of how such **impacts**, as well as the undertaking's **dependencies** on its own workforce, workers in the **value chain, affected communities** and **consumers** and end-**users** can create **material risks** for the undertaking.
3. The undertaking shall apply the requirements in this Section, when it concludes that the corresponding topic is material (according to chapter 3.3 *Double materiality*, 3.4 *Impact materiality* and 3.5 *Financial materiality* of Section 1). Following the undertaking's assessment of the materiality of the information according to paragraph 36 of Section 1, the **sustainability statement** shall include those disclosures prescribed in this Section that are assessed to be material. Individual datapoints may be omitted when the corresponding information is not material and the undertaking concludes that such information is not needed to meet the objective of the Disclosure Requirement.
4. This section sets requirements for **metrics** that are relevant only to Own Workforce. Disclosure requirements related to workers in the **value chain, affected communities** and **consumers** and end-**users** are located in Section 3 Centralised Disclosures (as policies, **actions, targets**).
5. For Own Workforce (S1):
 - (a) These [draft] Disclosure Requirements relate to the following **sustainability matters**: (a) working conditions (including secure employment; working time; **adequate wages**; **social dialogue**; freedom of association, the existence of works councils and the information, consultation and participation rights of workers; collective bargaining, including the rate of the undertaking's **employees** covered by collective agreements; **work-life balance**; and health and safety), (b) **equal treatment** and **opportunities** for all (including gender equality and equal pay for work of equal value; **training** and skills development; employment and inclusion of **persons with disabilities**; measures against violence and **harassment** in the workplace; and diversity), (c) other work-related rights (including those that relate to **child labour, forced labour**; adequate housing; and privacy).
 - (b) These [draft] Disclosure Requirements cover an undertaking's own workforce, which is understood to include both people who are in an employment relationship with the undertaking ("**employees**") and non-employees who are either people with contracts with the undertaking to supply labour ("self-employed people") or people provided by undertakings primarily engaged in "employment activities" (NACE Code N78). See Application Requirement 3 for examples of who falls under own workforce. The information required to be disclosed with regard to non-employees

shall not affect in any way the employment status pursuant to applicable labour law.

- (c) These [draft] Disclosure Requirements require undertakings to describe their own workforce, including key characteristics of the **employees** and non-employees that are part of it. This description provides **users** with an understanding of the structure of the undertaking's relationship with present workforce and helps to contextualise information that are relevant and material to other social disclosures included in this Section of LSME ESRS.
 - (d) The objective of these [draft] Disclosure Requirements is also to enable **users** to understand the extent to which the undertaking aligns or complies with international and European human rights instruments and conventions, including the International Bill of Human Rights, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and ILO fundamental conventions, the UN Convention on Persons with Disabilities, the European Convention of Human Rights, the revised European Social Charter, the Charter of Fundamental Rights of the European Union, the EU **policy** priorities as set out by the European Pillar of Social Rights, and Union legislation.
6. For Workers in the **value chain** (S2):
- (a) These [draft] Disclosure Requirements relate to the following **sustainability matters**: (a) working conditions (for example, secure employment, working time, **adequate wage**, **social dialogue**, freedom of association, including the existence of work councils, collective bargaining, **work-life balance** and health and safety); (b) **equal treatment** and **opportunities** for all (for example, gender equality and equal pay for work of equal value, **training** and skills development, the employment and inclusion of **persons with disabilities**, measures against violence and **harassment** in the workplace, and diversity); (c) other work-related rights (for example, **child labour**, **forced labour**, adequate housing, water and sanitation and privacy).
 - (b) These [draft] Disclosure Requirements cover all workers in the undertaking's upstream and downstream **value chain** who are or can be materially impacted by the undertaking, including the **impacts** that relate to the undertaking's own operations, products and or services, this also includes the **value chain** through its business relationships. This includes also all the workers who are not included in the scope of "own workforce" ("own workforce" includes **employees**, individual contractors, i.e., self-employed workers, and workers provided by third party undertakings primarily engaged in 'employment activities') and are or can be significantly affected by the undertaking. See AR 5 for examples of what is included in the scope of this [draft] Standard.
7. For *Affected communities* (S3), these [draft] Disclosure Requirements relate to the following **sustainability matters**: (a) communities' economic, social and cultural rights (for example, adequate housing, adequate food, water and sanitation, land-related and security-related **impacts**); (b) communities' civil and political rights (for example, freedom of expression, freedom of assembly, impacts on human rights defenders); (c) particular rights of **indigenous peoples** (for example, **free, prior and informed consent**, self-determination, cultural rights).
8. For *Consumers and end-users* (S4), these [draft] Disclosure Requirements relate to the following **sustainability matters**: (a) information-related **impacts** on consumers and/or end-users (for example, privacy, freedom of expression and access to (quality) information); (b) personal safety of consumers and/or end-users (for example, health and safety, security of a person and protection of children); (c) social inclusion of consumers and/or end-users (for example, non-**discrimination**, access to products and services and responsible marketing practices).

Own workforce (S1)

Metrics

Disclosure Requirement S1-1 – Characteristics of the undertaking's employees

9. **The undertaking shall describe key characteristics of employees in its own workforce.**
10. The objective of this Disclosure Requirement is to provide insight into the undertaking's approach to employment, including the scope and nature of **impacts** arising from its employment practices, to provide contextual information that aids an understanding of the information reported in other disclosures, and to serve as the basis for calculation for quantitative **metrics** to be disclosed under other disclosure requirements in this Standard.
11. The disclosure required by paragraph 9 shall include:
- (a) the total number of **employees** by head count, and breakdowns by gender and by country for countries in which the undertaking has at least 10% of its total number of employees. If this threshold is not applicable, the undertaking may report the country breakdown by main countries;
 - (b) the total number by head count or full time equivalent (FTE) of:
 - i. permanent **employees**, and breakdown by gender;
 - ii. temporary **employees**, and breakdown by gender; and
 - iii. non-guaranteed hours **employees**, and breakdown by gender.
 - (c) the rate of **employee** turnover in the reporting period.
 - (d) a description of the methodologies and assumptions used to compile the data, including whether the numbers are reported:
 - i. in head count or full-time equivalent (FTE) (including an explanation of how FTE is defined); and
 - ii. at the end of the reporting period, as an average across the reporting period, or using another methodology.
 - (e) where applicable, a cross-reference of the information reported under (a) above to the most representative number in the financial statements.
12. An undertaking may disclose by head count or full time equivalent (FTE) the following information:
- (a) full-time **employees**, and breakdown by gender; and
 - (b) part-time **employees**, and breakdown by gender.

Disclosure Requirement S1-2 – Characteristics of non-employees in the undertaking's own workforce

13. **The undertaking shall describe key characteristics of non-employees in its own workforce.**
14. The objective of this Disclosure Requirement is to provide insight into the undertaking's approach to employment, including the scope and nature of **impacts** arising from its employment practices, to provide contextual information that aids the understanding of the information reported in other disclosures, and to serve as the basis for calculation for quantitative **metrics** to be disclosed under other disclosure requirements in this Standard.

It also allows an understanding of how much the undertaking relies on **non-employees** as part of its workforce.

15. The disclosure required by paragraph 13 shall include:
 - (a) a disclosure of the total number of **non-employees** in the undertaking's **own workforce**, i.e., either people with contracts with the undertaking to supply labour ("self-employed people") or people provided by undertakings primarily engaged in "employment activities" (NACE Code N78).
 - (b) an explanation of the methodologies and assumptions used to compile the data, including whether the number of **non-employees** is reported:
 - i. in headcount or full-time equivalent (FTE) (including a definition of how FTE is defined); and
 - ii. at the end of the reporting period, as an average across the reporting period, or using another methodology.
16. For the information specified in point (a) of paragraph 15, the undertaking may disclose the most common types of **non-employees** (for example, self-employed people, people provided by undertakings primarily engaged in employment activities, and other types relevant to the undertaking), and their relationship with the undertaking.

Disclosure Requirement S1-3 – Collective bargaining coverage

17. **The undertaking shall disclose information on the extent to which the working conditions and terms of employment of its employees are determined or influenced by collective bargaining agreements.**
18. The objective of this Disclosure Requirement is to enable an understanding of the coverage of collective bargaining agreements for the undertaking's own **employees**.
19. The undertaking shall disclose the percentage of its total **employees** covered by **collective bargaining** agreements;
20. For **employees** not covered by **collective bargaining** agreements, the undertaking may disclose whether it determines their working conditions and terms of employment based on collective bargaining agreements that cover its other employees or based on collective bargaining agreements from other undertakings.
21. The undertaking may disclose the extent to which the working conditions and terms of employment of **non-employees** in its **own workforce** are determined or influenced by **collective bargaining** agreements.

Disclosure Requirement S1-4 – Adequate wages

22. **The undertaking shall disclose whether or not its employees are paid an adequate wage, and if they are not paid an adequate wage, the countries and percentage of employees concerned.**
23. The objective of this Disclosure Requirement is to enable an understanding of whether or not the undertaking's **employees** are paid an **adequate wage**, in line with applicable benchmarks.
24. The undertaking shall disclose whether its **employees** are paid an **adequate wage**, in line with applicable benchmarks. If so, stating this will be sufficient to fulfil this disclosure requirement and no further information is needed.
25. If there are **employees** not paid an **adequate wage** in line with applicable benchmarks, the undertaking shall disclose the countries where employees earn below the applicable adequate wage benchmark for countries that represent at least 10% of its total number of

employees. If this threshold is not applicable, the undertaking may report by main countries. The undertaking shall also disclose the percentage of employees that earn below the applicable adequate wage benchmark for each of these countries.

26. The undertaking may disclose the information specified in this disclosure requirement with regard to **non-employees** in this workforce.

Disclosure Requirement S1-5 – Social protection

27. **The undertaking shall disclose whether its employees are covered by social protection against loss of income due to major life events.**

28. The objective of this Disclosure Requirement is to enable an understanding of whether the undertaking's **employees** are covered by **social protection** against loss of income due to major life events, and, if not, the countries where this is not the case.

29. The undertaking shall disclose whether its **employees** are covered by **social protection**, through public programs or through benefits offered by the undertaking, against loss of income due to any of the following major life events:

- (a) sickness;
- (b) unemployment starting from when the own worker is working for the undertaking;
- (c) employment injury and acquired disability;
- (d) parental leave; and
- (e) retirement.

If so, stating this is sufficient to fulfil this disclosure requirement and no further information is needed.

30. If its **employees** are not covered by **social protection** in accordance with paragraph 27, the undertaking may in addition disclose:

- (a) the main countries where employees do not have social protection with regard to one or more of the types of events listed in paragraph 29; and,
- (b) for each of those countries, the types of employees who do not have social protection with regard to each applicable major life event.

31. The undertaking may also disclose the information specified in this disclosure requirement with regard to **non-employees** in its workforce.

Disclosure Requirement S1-6 Training metrics

32. **The undertaking shall disclose the extent to which training is provided to its employees.**

33. The objective of this Disclosure Requirement is to enable an understanding of the **training** - related activities that have been offered to **employees**, within the context of continuous professional growth, to upgrade employees' skills and facilitate continued employability.

34. The disclosure required by paragraph 32 shall include the average number of **training** hours per **employee** and by gender.

Disclosure Requirement S1-7 – Health and safety metrics

35. **The undertaking shall disclose information on the number of work-related incidents and fatalities and the corresponding information on days lost of its own workforce.**

36. The objective of this Disclosure Requirement is to allow an understanding of the coverage, quality and performance of the health and safety management system established to prevent work-related injuries.
37. The disclosure required by paragraph 35 shall include the following information, where applicable broken down between **employees** and **non-employees** in the undertaking's **own workforce**:
- (a) the number of fatalities¹ as a result of work-related injuries and work-related ill health;
 - (b) the number and rate² of recordable work-related accidents;
 - (c) regarding the undertaking's employees, the number of days lost to work-related injuries and fatalities from work-related accidents, work-related ill health and fatalities from ill health³.
38. The undertaking may also disclose the information specified in point (c) of paragraph 37 regarding **non-employees**.

Disclosure Requirement S1-8 – Remuneration metrics (pay gap and total remuneration)

39. **The undertaking shall disclose the percentage gap in pay between its female and male employees and the ratio between the remuneration of its highest paid individual and the median remuneration for its employees.**
40. The objective of this Disclosure Requirement is twofold: to allow an understanding of the extent of any gap in the **pay** between women and men amongst the undertaking's **employees**, and to provide insight into the level of remuneration inequality inside the undertaking and whether wide pay disparities exist.
41. The disclosure required by paragraph 39 shall include:
- (a) the gender **pay** gap, defined as the difference of average pay levels between female and male **employees**, expressed as percentage of the average pay level of male employees⁴;
 - (b) the **annual total remuneration** ratio of the highest paid individual to the median annual total remuneration for all **employees** (excluding the highest-paid individual)⁵.
42. The undertaking may disclose a breakdown of the gender **pay** gap as defined in paragraph 41 (a) by **employee** category and/or by country/segment. The undertaking may also

¹ This information supports the information needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Weighted average ratio of accidents, injuries, fatalities" in section 1 and 2 of Annex 2.

² This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #2 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Rate of accidents") and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Weighted average ratio of accidents, injuries, fatalities" in section 1 and 2 of Annex 2.

³ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #3 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Number of days lost to injuries, accidents, fatalities or illness").

⁴ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicator #12 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Unadjusted gender pay gap") and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Weighted average gender pay gap" in section 1 and 2 of Annex 2.

⁵ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #8 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Excessive CEO pay ratio").

disclose the gender pay gap between employees by categories of employees broken down by ordinary basic salary and complementary or variable components.

43. In relation to paragraph 41 (b), the undertaking may report this figure adjusted for purchasing power differences between countries, in which case it shall report the methodology used for the calculation.

Disclosure Requirement S1-9 – Incidents and severe human rights impacts

44. **The undertaking shall disclose the number of discrimination-related incidents and severe human rights impacts within its own workforce, and any related material fines, sanctions or compensation for the reporting period.**
45. The objective of this Disclosure Requirement is to allow an understanding of the extent to which **discrimination-related incidents** and severe cases of human rights **impacts** that are reported in the reporting period are affecting its **own workforce**.
46. The disclosure required by paragraph 44 shall include, subject to the relevant privacy regulations, **work-related incidents of discrimination** on the grounds of gender, racial or ethnic origin, nationality, religion or belief, disability, age, sexual orientation, or other relevant forms of discrimination involving internal and/or external **stakeholders** across operations in the reporting period. This includes incidents of **harassment** as a specific form of discrimination.
47. The undertaking shall disclose the following information regarding incidents of **discrimination** and identified cases of severe human rights **incidents** (e.g., **forced labour, human trafficking** or **child labour**):
- (a) the total number of **incidents of discrimination**, including **harassment**, reported in the reporting period⁶, as well as the number of severe human rights incidents connected to the undertaking's workforce in the reporting period, including an indication of how many of these are cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises. If no such incidents have occurred, the undertaking shall state this⁷; and
 - (b) the total amount of fines, penalties and compensation for damages resulting from the incidents described in (a) above, and a reconciliation of the monetary amounts disclosed in the most relevant amount in the financial statements. If it is not possible to provide a reconciliation after making reasonable efforts to do so, the undertaking shall provide an explanation of where in the financial statements these monetary amounts can be found.

Disclosure Requirement S1-10 – Diversity metrics

48. **The undertaking shall disclose the gender distribution at top management and the percentage of its employees with disabilities.**

⁶ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #7 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Incidents of discrimination").

⁷ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory and additional indicator related to principal adverse impacts as set out by indicator #10 in Table 1 of Annex 1 and by indicator #14 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Violations of UNGC principles and OECD" and "Number of identified cases of severe human rights issues and incidents") and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Number of benchmark constituents subject to social violations (absolute number and relative divided by all benchmark constituents), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law" in section 1 and 2 of Annex 2.

49. The objective of this Disclosure Requirement is to enable an understanding of the gender diversity at top management level and the extent to which **persons with disabilities** are included among the undertaking's **employees**.
50. The undertaking shall disclose:
- (a) the gender distribution in number and percentage at top management level; and,
 - (b) the percentage of **persons with disabilities** amongst its **employees** subject to legal restrictions on the collection of data.

Voluntary Disclosure S1-11 – Work-life balance metrics

51. **The undertaking may disclose the extent to which employees are entitled to and make use of family-related leave.**
52. The objective of this Disclosure Requirement is to provide an understanding of the entitlement and actual practices amongst the **employees** to take family-related leave in a gender equitable manner, as it is one of the dimensions of **work-life balance**.
53. The undertaking may disclose:
- (a) the percentage of **employees** entitled to take family-related leave; and
 - (b) the percentage of entitled **employees** that took family-related leave, and a breakdown by gender.
54. If all the undertaking's **employees** are entitled to family-related leave through social **policy** and/or **collective bargaining** agreements, it is sufficient to disclose this in order to meet the requirement of paragraph 53 (a).

Appendix A: Application Requirements

This appendix is an integral part of [draft] Section 5. It supports the application of the disclosure requirements set out in this section and has the same authority as the other parts of this [draft] Standard.

Objective of own workforce, value chain workers, affected communities and consumers and end-users

Own workforce

- AR 1. The undertaking's **impacts** in relation to **sustainability matters** and **dependencies** on specific stakeholder groups can create **material risks** for the undertaking. For instance, on the matter of **equal opportunities, discrimination** in hiring and promotion against women can reduce the undertaking's access to qualified labour and harm its reputation; negative impacts on **value chain workers** may disrupt the undertaking's operations (through customers refusing to buy its products or state agencies impounding its goods) and harm its reputation; negative relationships with **affected communities** may disrupt the undertaking's own operations or harm its reputation; negative impacts on the reputation of the undertaking's products and/or services can deteriorate its business performance.
- AR 2. The overview of social matters provided in paragraph 5 (a) is not meant to imply that all these issues should be reported on in each Disclosure Requirement in this [draft] Standard. Rather, they provide a list of matters derived from the CSRD that undertakings shall consider for the ESRS 2 **materiality** assessment related to own workforce and, subsequently, report as material **impacts** and **risks** within the scope of this [draft] Standard.
- AR 3. Examples of people that fall within the scope of "**non-employees**" are:
- (a) Examples of contractors (self-employed persons) in the undertaking's own workforce include:
 - i. Contractors hired by the undertaking to perform work that would otherwise be carried out by an **employee**.
 - ii. Contractors hired by the undertaking to perform work in a public area (e.g., on a road, on the street).
 - iii. Contractors hired by the undertaking to deliver the work/service directly at the workplace of a client of the undertaking.
 - (b) Examples of people employed by a third party engaged in "employment activities" include people who perform the same work that **employees** carry out, such as:
 - i. people who fill in for employees who are temporarily absent (due to illness, holiday, parental leave, etc.);
 - ii. people performing work additional to regular employees;
 - iii. people who are dispatched temporarily from another EU member state to work for the undertaking ('posted workers')

Value chain workers

- AR 4. The overview of social and human rights matters provided in paragraph 6 (a) is not meant to imply that all these issues should be disclosed in each Disclosure Requirement in this [draft] Standard. Rather, it provides a list of matters that the undertaking shall consider in its **materiality** assessment (ref. to ESRS 1 chapter 3 *Double materiality as the basis for sustainability disclosures* and ESRS 2 IRO-1) related to workers in the **value chain** and,

subsequently, disclose as material **impacts** and **risks** within the scope of this [draft] Standard.

AR 5. Examples of workers that fall within the scope of this [draft] Standard are:

- (a) workers of outsourced services working in the workplace of the undertaking (e.g., third party catering or security workers);
- (b) workers of a **supplier** contracted by the undertaking who work on the supplier's premises using the supplier's work methods;
- (c) workers for a 'downstream' entity which purchases goods or services from the undertaking;
- (d) workers of an equipment **supplier** to the undertaking who, at a workplace controlled by the undertaking, perform regular maintenance on the supplier's equipment (e.g., photocopier) as stipulated in the contract between the equipment supplier and the undertaking; and
- (e) workers deeper in the **supply chain** who are extracting commodities that are then processed into components that go in the undertaking's products.

Affected communities

AR 6. The overview of social and human rights matters provided in paragraph 7 is not meant to imply that all these issues should be disclosed in each Disclosure Requirement in this [draft] Standard. Rather, it provides a list of matters that the undertaking shall consider in its **materiality** assessment (ref. to ESRS 1 chapter 3 *Double materiality as the basis for sustainability disclosures* and ESRS 2 IRO-1) related to **affected communities** and, subsequently, disclose as material **impacts** and **risks** within the scope of this [draft] Standard.

Consumers and end-users

AR 7. The overview of social and human rights matters provided in paragraph 8 is not meant to imply that all these issues should be disclosed in each Disclosure Requirement in this [draft] Standard. Rather, it provides a list of matters that the undertaking shall consider in its **materiality** assessment (ref. to ESRS 1 chapter 3 *Double materiality as the basis for sustainability disclosures* and ESRS 2 IRO-1) related to **consumers** and/or **end-users** and, subsequently, disclose as material **impacts** and **risks** within the scope of this [draft] Standard.

Metrics

Disclosure Requirement S1-1 – Characteristics of the Undertaking's Employees

AR 8. This Disclosure Requirement covers all **employees** who perform work for any of the undertaking's entities included in its sustainability reporting.

AR 9. The undertaking shall disclose the requested disclosures in the following tabular formats:

AR 10. Table 1: Template for presenting information on **employee** head count by gender

Gender	Number of employees (head count)
Male	
Female	

ESRS LMSE ED

Other	
Not reported	
Total Employees	

AR 11. In some Member States it is possible for persons to legally register themselves as having a third, often neutral, gender, which is categorised as “other” in the table above. However, if the undertaking is disclosing data about **employees** where this is not possible, it may explain this and indicate that the “other” category is not applicable.

AR 12. Table 2: Template for presenting **employee** head count in countries where the undertaking has at least 10% of its total number of employees

Country	Number of employees (head count)
Country A	
Country B	
Country C	
Country D	

AR 13. Table 3: Template for presenting information on **employees** by contract type, broken down by gender (head count or FTE) (reporting on full-time and part-time employees is voluntary)

[Reporting period]				
FEMALE	MALE	OTHER*	NOT DISCLOSED	TOTAL
Number of employees (head count / FTE)				
Number of permanent employees (head count / FTE)				
Number of temporary employees (head count / FTE)				
Number of non-guaranteed hours employees (head count / FTE)				
Number of full-time employees (head count / FTE)				
Number of part-time employees (head count / FTE)				

- Gender as specified by the employees themselves.

AR 14. The definitions of permanent, temporary, non-guaranteed hours, full-time, and part-time **employees** differ between countries. If the undertaking has employees in more than one country, it shall use the definitions as per the national laws of the countries where the employees are based to calculate country-level data. The country-level data shall then be added up to calculate total numbers, disregarding differences in national legal definitions. Non-guaranteed hours employees are employed by the undertaking without a guarantee of a minimum or fixed number of working hours. The employee may need to make themselves available for work as required, but the undertaking is not contractually obliged to offer the employee a minimum or fixed number of working hours per day, week, or month. Casual employees, employees with zero-hour contracts, and on-call employees are examples that fall under this category.

AR 15. The undertaking may provide an additional breakdown of the information disclosed as per paragraph 11(b), by region.

AR 16. Disclosing the number of **employees** at the end of the reporting period provides information for that point in time, without capturing fluctuations during the reporting period.

Disclosing these numbers in averages across the reporting period takes into account fluctuations during the reporting period.

- AR 17. Quantitative data, such as the number of temporary or part-time **employees**, is unlikely to be sufficient on its own. For example, a high proportion of temporary or part-time employees could indicate a lack of employment security for employees, but it could equally signal workplace flexibility when offered as a voluntary choice. For this reason, the undertaking may disclose contextual information to help information **users** interpret the data. The undertaking can explain the reasons for temporary employment. An example of such a reason is the recruitment of employees to undertake work on a temporary or seasonal project or event. Another example is the standard practice of offering a temporary contract (for example, six months) to new employees before an offer of permanent employment is made. The undertaking may also explain the reasons for non-guaranteed hours employment.

Disclosure Requirement S1-2 – Characteristics of non-employees in the undertaking's own workforce

- AR 18. This Disclosure Requirement provides insight into the undertaking's approach to employment, as well as the scope and nature of **impacts** arising from its employment practices. It also provides contextual information that aids an understanding of the information reported in other disclosures. If all the people performing work for the undertaking are **employees** and the undertaking does not have any people in its workforce who are not employees, this Disclosure Requirement is not material for the undertaking; notwithstanding, the undertaking may state this fact when disclosing the information required by Disclosure Requirement S1-1 as contextual information as this information can be relevant for the **users** of the **Sustainability Statement**.
- AR 19. Examples of contractors (self-employed people) in the undertaking's own workforce include: contractors hired by the undertaking to perform work that would otherwise be carried out by an **employee**; contractors hired by the undertaking to perform work in a public area (for example, on a road, on the street); and contractors hired by the undertaking to deliver the work/service directly at the workplace of a client of the organization. Examples of people employed by a third party engaged in 'employment activities' whose work is under the direction of the undertaking include: people who perform the same work that employees carry out, such as people who fill in for employees who are temporarily absent (due to illness, holiday, parental leave, etc.); people performing regular work at the same **site** as employees; and workers who are dispatched temporarily from another EU member state to work for the undertaking ("posted workers"). Examples of **value chain workers** (and thus of workers not in the undertaking's own workforce and reported under the scope of ESRS S2) include: workers for a **supplier** contracted by the undertaking who work on the supplier's premises using the supplier's work methods; workers for a 'downstream' entity which purchases goods or services from the undertaking; and workers of an equipment supplier to the undertaking who, at one or more of the undertaking's workplaces, perform regular maintenance on the supplier's equipment (for example, photocopier) as stipulated in the contract between the equipment supplier and the undertaking.
- AR 20. Disclosing the number of people in the undertaking's own workforce who are not **employees** at the end of the reporting period provides information for that point in time without capturing fluctuations during the reporting period. Disclosing this number as an average across the reporting period considers fluctuations during the reporting period and can provide more insightful and relevant information for **users**.
- AR 21. The undertaking may also disclose the reasons for the fluctuations. For example, an increase in the number of **non-employees** during the reporting period could be due to a seasonal event. Conversely, a decrease in the number of non-employees compared to the previous reporting period could be due to the completion of a temporary project. If the undertaking discloses fluctuations, it shall also explain the criteria used to determine which fluctuations it discloses. If there are no significant fluctuations in the number of non-

employees during the reporting period or between the current and previous reporting period, the undertaking may disclose this information.

Disclosure Requirement S1-3 – Collective bargaining coverage

Collective bargaining coverage

AR 22. The percentage of **employees** covered by collective bargaining agreements is calculated using the following formula:

$$\frac{\text{Number of employees covered by collective bargaining agreements}}{\text{Number of employees}} \times 100$$

AR 23. The **employees** in the undertaking’s own workforce covered by collective bargaining agreements are those individuals to whom the undertaking is obliged to apply the agreement. This includes the different levels at which collective bargaining agreements can be discussed and agreed, according to the definition in the Collective Bargaining Convention, 1981 (No. 154), (e.g., national, sectoral, undertaking levels). If none of the employees are covered by a **collective bargaining** agreement, the percentage reported is zero. An employee in the undertaking’s own workforce covered by more than one collective bargaining agreement only needs to be counted once.

AR 24. This requirement is not aimed at obtaining the percentage of **employees** represented by a works council or belonging to trade unions, which can be different. The percentage of employees covered by **collective bargaining** agreements can be higher than the percentage of unionised employees when the collective bargaining agreements apply to both union and non-union members. Alternatively, the percentage of employees covered by collective bargaining agreements can be lower than the percentage of unionised employees. This may be the case when there are no collective bargaining agreements available or when the collective bargaining agreements do not cover all unionised employees.

AR 25. The information required by this Disclosure Requirement shall be reported as follows:

Table 1: Reporting template for collective bargaining coverage

Coverage Rate	Collective bargaining coverage of employees
0-19%	
20-39%	
40-59%	
60-79%	
80-100%	

Disclosure Requirement S1-4 – Adequate Wages

AR 26. The lowest **wage** shall be calculated for the lowest pay category, excluding interns and apprentices. This is to be based on the basic wage plus any fixed additional payments that are guaranteed to all **employees**. The lowest wage shall be considered separately for each country in which the undertaking has operations, except outside the EEA when the relevant adequate or minimum wage is defined at a sub national level.

AR 27. The **adequate wage** benchmark used for comparison with the lowest wage shall not be lower than:

- (a) in the EEA: the minimum wage set in accordance with Directive (EU) 2022/2041 of the European Parliament and of the Council⁸ on adequate

⁸ Directive (EU) 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages in the European Union (OJ L 275, 25.10.2022, p. 33).

minimum wages in the European Union. In the period until Directive 2022/2041 enters into application, where there is no applicable minimum wage determined by legislation or collective bargaining in an EEA country, the undertaking shall use an adequate wage benchmark that is either not lower than the minimum wage in a neighbouring country with a similar socio-economic status or not lower than a commonly referenced international norm such as 60% of the country's median wage and 50% of the gross average wage.

- (b) outside of the EEA:
- i. the wage level established in any existing international, national or sub-national legislation, official norms or collective agreements, based on an assessment of a wage level needed for a decent standard of living;
 - ii. if none of the instruments identified in (i) exist, any national or sub-national minimum wage established by legislation or collective bargaining; or
 - iii. if none of the instruments identified in (i) or (ii) exist, any benchmark that meets the criteria set out by the Sustainable Trade Initiative (IDH) ('Roadmap on Living Wages - A Platform to Secure Living Wages in Supply Chains'), including applicable benchmarks aligned with the Anker methodology, or provided by the Wage Indicator Foundation or Fair Wage Network, provided the primacy of collective bargaining for the establishment of terms and conditions of employment is ensured.

AR 28. Directive (EU) 2022/2041 on adequate minimum **wages** in the European Union references both indicative reference values commonly used at international level such as 60% of the gross median wage and 50% of the gross average wage, and/or indicative reference values used at national level. Data for the indicative values of 60% of the national median gross wage or 50% of the national average gross wage can be obtained from the European Labour Force Survey.

Disclosure Requirement S1-5 – Social protection

AR 29. **Social protection** refers to all the measures that provide access to health care and income support in cases of challenging life events such as the loss of a job, being sick and in need of medical care, giving birth and raising a child, or retiring and in need of a pension.

Disclosure Requirement S1-6 – Training metrics

AR 30. To disclose the average required per paragraph 34, the undertaking shall perform the following calculation: total number of **training** hours offered to and completed by **employees** per gender category divided by the total number of employees per gender category. For the total training average and the average by gender, the head count figures for total employment and employment by gender reported in Disclosure Requirement ESRS S1-1 shall be used.

Disclosure Requirement S1-7 – Health and safety metrics

AR 31. Fatalities may be reported separately for those resulting from ***work-related injuries*** and those resulting from ***work-related ill health***.

Guidance on “work-related”

AR 32. Work-related injuries and work-related ill health arise from exposure to hazards at work. Notwithstanding, other types of incidents can occur that are not connected with the work itself. For example, the following incidents are generally not considered to be work related, unless otherwise specified in applicable national legislation:

- (a) a person in the workforce suffers a heart attack while at work that it is not connected with work;
- (b) a person in the workforce driving to or from work is injured in a car accident (when driving is not part of the work and where the transport has not been organised by the undertaking); and
- (c) a person in the workforce with epilepsy has a seizure at work that it is not connected with work.

AR 33. Injuries and ill health that occur while a person is travelling are work-related if, at the time of the injury or ill health, the person was engaged in work activities “in the interest of the employer”. Examples of such activities include travelling to and from customer contacts; conducting job tasks; and entertaining or being entertained to transact, discuss, or promote business (at the direction of the employer). If the undertaking is responsible for the transport commuting, incidents occurred while commuting are considered to be work-related. Nonetheless, incidents which arise during travel, outside of the undertaking’s responsibility (i.e. regular commuting to and from work), may be reported separately provided that the undertaking has such data available across the undertaking.

AR 34. Injuries and ill health that occur when working from home are work-related, if the injury or ill health occurs while the person is performing work from home; and the injury or ill health is directly related to the performance of work rather than the general home environment or setting.

AR 35. Mental illness is considered to be work related if it has been notified voluntarily by the person concerned, is supported by an opinion from a licensed healthcare professional with appropriate ***training*** and experience, and if said opinion states that the illness is work-related.

AR 36. Health issues resulting, for example, from smoking, drug and alcohol abuse, physical inactivity, unhealthy diets, and psychosocial factors unrelated to work are not considered work-related.

AR 37. Occupational diseases are not considered work-related injuries but are covered under work-related ill health.

Guidance on computing the rate of work-related injuries

AR 38. In computing the rate of work-related injuries, the undertaking shall divide the number of cases by the number of total hours worked by people in its own workforce and multiplied by 1,000,000. Thereby, these rates represent the number of cases per one million hours worked. A rate based on 1,000,000 hours worked indicates the number of work-related injuries per 500 full time people in the workforce over a 1-year timeframe. For comparability purposes a rate based on 1,000,000 hours worked shall be used also for undertakings with less than 500 people in the workforce.

AR 39. If the undertaking cannot directly calculate the number of hours worked, it may estimate this on the basis of normal or standard hours of work, taking into account entitlements to periods of paid leave of absence from work (for example, paid vacations, paid sick leave, public holidays) and explain this in its disclosures.

AR 40. An undertaking shall include fatalities as a result of **work-related injury** in the calculation of the number and rate of recordable work-related injuries.

Guidance on recordable work-related ill health

AR 41. Work-related ill health can include acute, recurring, and chronic health problems caused or aggravated by work conditions or practices. These include musculoskeletal disorders, skin and respiratory diseases, malignant cancers, diseases caused by physical agents (for example, noise induced hearing loss, vibration-caused diseases), and mental illnesses (for example, anxiety, post-traumatic stress disorder). For the purpose of the required disclosures, the undertaking shall, at a minimum, include in its disclosure those cases outlined in the ILO List of Occupational Diseases.

AR 42. In the context of this [draft] Standard, work-related musculoskeletal disorders are covered under work-related ill health (and not injuries).

Guidance on the number of days lost

AR 43. The undertaking shall count the number of days lost as such that the first full day and last day of absence shall be included. Calendar days should be considered for the calculation, thus days on which the affected individual is not scheduled for work (for example, weekends, public holidays) will count as lost days.

Disclosure Requirement S1-8 – Remuneration metrics (pay gap and total remuneration)

Pay gap

AR 44. When compiling the information required under paragraph 41 (a) for the gap in pay between its female and male **employees** (also known as the “gender pay gap”) the undertaking shall use the following methodology:

- (a) include all employees’ gross hourly pay level; and
- (b) apply the following formula to calculate the gender pay gap:

$$\frac{(\text{Average gross hourly pay level of male employees} - \text{average gross hourly pay level of female employees})}{\text{Average gross hourly pay level of male employees}} \times 100$$

AR 45. When disclosing the information required under paragraph 41 (a), the undertaking shall provide any contextual information necessary to understand the data and how the data has been compiled (methodology). Information regarding how objective factors such as type of work and country of employment influence the gender pay gap may be reported.

AR 46. The measure of the undertaking’s gender pay gap shall be reported for the current reporting period and, if reported in previous sustainability reports, for the previous two reporting periods.

Total remuneration Ratio

AR 47. When compiling the information required by paragraph 41 (b), the undertaking shall:

- (a) include all **employees**;
- (b) consider, depending on the undertaking’s remuneration policies, all of the following:
 - i. base salary, which is the sum of guaranteed, short-term, and non-variable cash compensation;

- ii. benefits in cash, which is the sum of the base salary and cash allowances, bonuses, commissions, cash profit-sharing, and other forms of variable cash payments;
 - iii. benefits in kind, such as cars, private health insurance, life insurance, wellness programs; and
 - iv. direct remuneration, which is the sum of benefits in cash, benefits in kind and total fair value of all annual long-term incentives (for example, stock option awards, restricted stock shares or units, performance stock shares or units, phantom stock shares, stock appreciation rights, and long-term cash awards).
- (c) apply the following formula for the **annual total remuneration** ratio:

$$\frac{\text{Annual total remuneration for the undertaking's highest paid individual}}{\text{Median employee annual total remuneration (excluding the highest – paid individual)}}$$

Disclosure Requirement S1-9 – Incidents and severe human rights impacts

Discrimination incidents

AR 48. In addition to the information required by paragraphs 47, the undertaking may disclose the status of incidents and/or complaints and **actions** taken with reference to the following:

- (a) incidents reviewed by the undertaking;
- (b) remediation plans being implemented;
- (c) remediation plans that have been implemented, with results reviewed through routine internal management review processes; and
- (d) incidents no longer subject to action.

AR 49. If the undertaking compiles the information described in AR 50, it shall consider the following:

- (a) an incident is no longer subject to action if it is resolved, the case is completed, or no further action is required by the undertaking. For example, an incident for which no further action is required can include cases that are withdrawn or where the underlying circumstances that led to the incident no longer exist;
- (b) remedial action is directed toward the alleged harasser and the alleged victim. Remedial action toward the victim may include offering to pay his/her expenses for counselling sessions, offering the victim some paid time off, offering to reinstate sick/vacation days if the victim has incurred any expenses due to the **harassment** (such as having used sick or vacation days); and
- (c) remedial action toward the harasser may include giving the harasser a verbal and/or written warning, mandating anti-**harassment** counselling or sending the harasser to an appropriate seminar, harassment awareness and prevention **training**. A suspension without pay may also be an option. If the harasser has been disciplined earlier but his/her harassment does not cease, then more serious discipline may be required.

AR 50. Severe human rights incidents include instances of lawsuits, formal complaints through the undertaking or third-party complaint mechanisms, serious allegations in public reports or the media, where these are connected to the undertaking's own workforce, and the fact of the incidents is not disputed by the undertaking, as well as any other severe **impacts** of which the undertaking is aware.

Disclosure Requirement S1-10 – Diversity metrics

- AR 51. In preparing the disclosure on gender at top management, the undertaking shall use the definition of top management as one and two levels below the administrative and supervisory bodies, unless this concept has already been defined with the undertaking's operations and differs from the previous description. If this is the case, the undertaking can use its own definition for top management and disclose that fact and its own definition.
- AR 52. When disclosing the information required regarding **persons with disabilities**, the undertaking shall provide any contextual information necessary to understand the data and how the data has been compiled (methodology). For example, information about the impact of different legal definitions of persons with disabilities in the different countries in which the undertaking has operations.
- AR 53. The undertaking may additionally disclose the distribution of **employees** by age group: under 30 years old, 30-50 years old; over 50 years old.

Voluntary Disclosure S1-11 – Work-life balance

- AR 54. Family-related leave include maternity leave, paternity leave, parental leave, and carers' leave that is available under national law or collective agreements. For the purpose of this [draft] Standard, these concepts are defined as:
- (a) maternity leave (also called pregnancy leave): employment-protected leave of absence for employed women directly around the time of childbirth (or, in some countries, adoption);
 - (b) paternity leave: leave from work for fathers or, where and in so far as recognised by national law, for equivalent second parents, on the occasion of the birth or adoption of a child for the purposes of providing care;
 - (c) parental leave: leave from work for parents on the grounds of the birth or adoption of a child to take care of that child, as defined by each Member State;
 - (d) carers' leave from work: leave for workers to provide personal care or support to a relative, or a person who lives in the same household, in need of significant care or support for a serious medical reason, as defined by each Member State.
- AR 55. **Employees** entitled to family-related leave are those who are covered by regulations, organisational policies, agreements, contracts or collective bargaining agreements that contain family-related leave entitlements and have reported their entitlement to the undertaking or the undertaking is aware of the entitlement.

Appendix A.1: Application Requirements for Section 2 related disclosures

This appendix is an integral part of the [draft] Section 5 – Social Disclosures related to S1 *Own workforce*. It supports the application of the requirements from Section 2 and has the same authority as the other parts of this [draft] Standard. It supports the application of the requirements in Section 2 SBM-2 *Interests and views of stakeholders* and Section 2 SBM-3 *Material impacts and risks and their interaction with strategy and business model*. This appendix does not provide definitions of the terms mentioned below. All defined terms can be found in the Acronyms and Glossary of Terms.

Social and human rights matters	Non-exhaustive list of factors to consider in Materiality Assessment
Secure employment	% of employees with temporary contracts, ratio of non-employees to employees, social protection
Working time	% of employees with part time or zero-hour contracts, employee satisfaction with working time
Adequate wages	EU, national or local legal definitions of adequate wages, fair wages, and minimum wages
Social dialogue / existence of work councils / information, consultation and participation rights of workers	Extent of workplace, cross-border and board-level representation through trade unions and/or works councils
Freedom of association/Collective bargaining including the rate of workers covered by collective agreements	% of own workforce covered by collective bargaining agreements, work stoppages
Work-life balance	Family-related leave, flexible working hours, access to childcare
Health and safety	Coverage by H&S system, rate of fatalities, non-fatal accidents, work days lost
Gender equality and equal pay for work of equal value	% of women in top management and workforce, male-female wage gap
Training and skills development	Amount and distribution of training
The employment and inclusion of people with disabilities	% employment and accessibility measures for employees with disabilities
Measures against violence and harassment in the workplace	Prevalence of violence and harassment
Diversity	Representation of women and /or ethnic groups or minorities in own workforce. Age distribution in own workforce. Percentage of persons with disabilities within the own workforce.
Child labour	Type of operations and geographical areas at risk of child labour
Forced labour	Type of operations and geographical areas at risk of forced labour

Appendix A.2: Application Requirements for IR-3 on Policies related to own workforce.

This appendix is an integral part of the [draft] Section 5 – Social Disclosures related to S1 *Own workforce* and has the same authority as the other parts of this [draft] Standard. It supports the application of the requirements from Section 3 for Disclosure Requirement IR-3 for social and human rights matters with examples of disclosures:

Social and human rights matters	Examples of policies:
Secure employment	No-layoff policy, limits on renewing temporary contracts, employer provision of social protection where state provision is lacking
Working time	Limitations on overtime, long and split shifts, and night and weekend work, adequate lead time for scheduling
Adequate wages	Policy to ensure all people in own workforce receive an adequate wage
Social dialogue / existence of work councils / information, consultation and participation rights of workers	Policy to encourage institutions for social dialogue, regular information and consultation with worker representatives, consultation before final decisions on employment-related issues are reached
Freedom of association/Collective bargaining including the rate of workers covered by collective agreements	Non-interference in trade union formation and recruitment (including trade union access to undertakings), bargaining in good faith, recognition of, adequate time off for duties, facilities and dismissal protection for workers' representatives, no discrimination of trade union members and workers' representatives
Work-life balance	Provision of family leave, flexible working time, access to day care facilities for all workers
Health and safety	Coverage of all own workforce in H&S management system
Gender equality and equal pay for work of equal value	Policy for gender equality and equal pay for equal work
Training and skills development	Policy for enhancing skills and career prospects for employees
The employment and inclusion of people with disabilities	Policy for making workplaces accessible to persons with disabilities
Measures against violence and harassment in the workplace	Zero tolerance policy for violence and harassment at workplace
Diversity	Policy for inclusiveness (i.e. ethnic diversity or minority groups) and positive action.
Child labour	Policy for identifying where child labour occurs, identifying where exposure of young workers to hazardous work occurs and preventing risk of exposure
Forced labour	Policy for identifying where forced labour occurs and reducing risk of forced labour

Appendix A.3: Application Requirements for IR–3 Actions and resources to manage material impacts on own workforce, and approaches to mitigating material risks related to own workforce, and effectiveness of those actions

This appendix is an integral part of the [draft] Section 5 – Social Disclosures related to S1 *Own workforce* and has the same authority as the other parts of this [draft] Standard. It supports the application of the requirements for Section 3 Disclosure Requirement IR-4 for social and human rights matters with examples of disclosures:

Social and human rights matters	Examples of actions:
Secure employment	Offer permanent contracts to employees with temporary contracts, implement plans for social protection where state provision is lacking
Working time	Shift work rotation, extend advance notice of scheduling, reduction of excessive overtime
Adequate wages	Negotiation of fair wages in collective bargaining agreements, verification that employment agencies pay a fair wage
Social dialogue / existence of work councils / information, consultation and participation rights of workers	Expansion of sustainability issues dealt with in social dialogue, increase in number of meetings, increase in resources for works councils
Freedom of association/Collective bargaining including the rate of workers covered by collective agreements	Expansion of sustainability issues dealt with in collective bargaining, increase in resources for workers' representatives
Work-life balance	Expand family leave eligibility and flexible working time arrangements, increasing provision of day care
Health and safety	Increase health & safety training, investment in safer equipment
Gender equality and equal pay for work of equal value	Targeted recruitment and promotion of women, reduction in pay gap through negotiation of collective bargaining agreements
Training and skills development	Skills audits, training to fill skills gaps
The employment and inclusion of people with disabilities	Increasing accessibility measures
Measures against violence and harassment in the workplace	Improving complaint mechanisms, increasing sanctions against violence and harassment, providing training for prevention to management
Diversity	Training on diversity and inclusion (including ethnicity considerations), targeted recruitment of underrepresented groups
Child labour	Age verification measures, partnerships with organizations to eliminate child labour, measures against worst forms of child labour

Social and human rights matters	Examples of actions:
Forced labour	Measures ensuring free consent to employment without threat of penalty, contracts in understandable language, freedom to terminate employment without penalty, disciplinary measures should not obligate labour, free consent to overtime, freedom of movement (including to exit workplace), fair treatment for migrant workers, monitoring employment agencies

Appendix A.4: Application Requirements for Voluntary Disclosure IR-4 Targets related to managing material negative impacts and material risks

This appendix is an integral part of the [draft] Section 5 – Social Disclosures related to S1 *Own workforce* and has the same authority as the other parts of this [draft] Standard. It supports the application of the requirements for Section 3 Disclosure IR-5 for social and human rights matters with examples of disclosures:

Social and human rights matters	Examples of targets:
Secure employment	Increasing the % of workforce with employment contracts (especially permanent contracts) and social protection
Working time	Increasing the % of workforce with flexible working time arrangements
Adequate wages	Ensuring that all people in own workforce receive an adequate wage
Social dialogue / existence of work councils / information, consultation and participation rights of workers	Extending social dialogue to more establishments and/or countries
Freedom of association/Collective bargaining including the rate of workers covered by collective agreements	Increasing the % of own workforce covered by collective bargaining, negotiating collective bargaining agreements over sustainability issues
Work-life balance	Extending work-live measures to a greater % of own workforce
Health and safety	Reducing the rate of injuries and worktime lost due to injuries
Gender equality and equal work for equal pay	Increasing the % of women in the workforce and top management, reducing the male-female wage gap
Training and skills development	Increasing the % of employees receiving training
The employment and inclusion of people with disabilities	Increasing the % of persons with disabilities in own workforce
Measures against violence and harassment in the workplace	Extending measures to all workplaces

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Social and human rights matters	Examples of targets:
Diversity	Increasing the % of underrepresented groups in own workforce and top management
Child labour	Extending measures for preventing exposure of young persons to hazardous work to a greater % of operations
Forced labour	Extending measures for preventing forced labour to a greater number of operations

ESRS LSME ED – SECTION 6 BUSINESS CONDUCT

DISCLAIMER

Section 6 *Business conduct* is set out in paragraphs 1–12. The following appendices of Section 6 have the same authority as the main body of the [draft] Standard:

- *Appendix A: Application Requirements*,

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Objective

1. The objective of this Section of this [draft] Standard is to specify disclosure requirements which will enable users of the undertaking's sustainability statements to understand the undertaking's strategy and approach, processes and procedures as well as its business conduct performance.
2. This Section focusses on the following matters:
 - (a) anti-corruption and anti-bribery,
 - (b) the management of relationships with suppliers including payment practices, especially regarding late payment, and
 - (c) political influence and lobbying activities.
3. The undertaking shall apply the requirements in this Section, when it concludes that the corresponding topic is material (according to chapter 3.3 *Double materiality*, 3.4 *Impact materiality* and 3.5 *Financial materiality* of Section 1). Following the undertaking's assessment of the materiality of the information according to paragraph 36 of Section 1, the sustainability statement shall include those disclosures prescribed in this Section that are assessed to be material. Individual datapoints may be omitted when the corresponding information is not material and the undertaking concludes that such information is not needed to meet the objective of the Disclosure Requirement.
4. The objectives in par. 1 and the metrics disclosure requirements under Section 6 G1-1 to G1-3 shall be read in conjunction with Section 2 and 3 of this [draft] Standard.

Business Conduct (G1)

Disclosure Requirement G1-1 – Management of relationships with suppliers

5. **The undertaking shall provide information about the management of its relationships with its suppliers as well as the management of its impacts on its supply chain.**
6. This disclosure requirement should be read in conjunction with Section 2 IR 3, where the undertaking shall state whether it has a supplier code of conduct.
7. The undertaking may disclose information on its purchasing practice / procedure and whether it considers also ESG criteria.
8. The undertaking shall disclose whether it has established a practice / procedure to monitor late payments.

Disclosure Requirement G1-2 –Anti-corruption and anti-bribery

9. **The undertaking shall report whether it has a system in place to prevent and detect, investigate, and respond to allegations or incidents relating to corruption and bribery including the related training, and, if applicable, to describe it.**
10. The undertaking shall disclose:
 - (a) any actions taken to address breaches in procedures and standards of anti-**corruption** and anti-**bribery**¹;

¹ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts set out in indicator #16 of Table 3 of Annex 1 of the related Delegated Regulation, regarding disclosures rules on sustainable investments (“Cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery”).

- (b) the number of convictions and the amount of fines for violation of anti-**corruption** and anti-**bribery** laws².

Metrics

Disclosure Requirement G1-3 – Political influence and lobbying activities

- 11. **The undertaking shall disclose whether it has in place activities and commitments related to exerting its political influence, including its lobbying activities related to its material impacts and risks and describe them if applicable.**
- 12. The disclosure required by paragraph 11 shall include:
 - (a) if applicable, the representative(s) responsible in the **administrative, management and supervisory bodies** for the oversight of these activities,
 - (b) for financial or in-kind political contributions:
 - i. the total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking, and
 - ii. where appropriate, how the monetary value of in-kind political contributions is estimated.
 - (c) the main topics covered by its **lobbying activities** and the undertaking's main positions on these in brief.

² This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts set out in indicator #17 of Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws") and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Numbers of convictions and amount of fines for violations of anti-corruption and anti-bribery laws" in Section 1 and 2 of Annex 2.

Appendix A: Application Requirements

This appendix is an integral part of this section of this [draft] Standard. It supports the application of the disclosure requirements set out in this Section and has the same authority as the other parts of this [draft] Standard.

Disclosure Requirement G1-1 – Management of relationships with suppliers

- AR 1. For purposes of this standard, management of relationships with the undertaking’s suppliers may include the following:
- (a) how the undertaking’s practices, including activities to avoid or minimise the impacts of disruptions to its supply chain, support its strategy and risk management;
 - (b) the undertaking’s targets and actions, if any, regarding communication and management of relationships with suppliers.

Disclosure Requirement G1-2 – Anti-corruption and anti-bribery

- AR 2. Disclosures may include details about the risk assessments and/or mapping as well as monitoring programmes and/or internal control procedures performed by the undertaking to detect **corruption** and bribery. Such procedures may include training or whistleblowing systems.
- AR 3. The undertaking may present the required information about training on its anti-bribery and anti-**corruption** policies using the following table:

Anti-corruption and anti-bribery training illustrative example

During the 20XY financial year ABC provided training to its at-risk own workers in terms of its policy (see note x).. Details of its training during the year is as follows:

	Managers	Other employees
Training coverage		
Total	5	50
Total receiving training	3	42
Total hours of training	6	84
Frequency		
How often training is required	Annually	Annually



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