



BASIS FOR CONCLUSIONS

**VOLUNTARY ESRS FOR NON-
LISTED SMALL- AND MEDIUM-
SIZED ENTERPRISES
(VSME ESRS)**

JANUARY 2024

OPEN FOR COMMENTS UNTIL 21 MAY 2024

DISCLAIMER

Disclaimer

This Basis for Conclusions accompanies but is not part of the Exposure Draft Voluntary standard for non-listed small- and medium-sized undertakings (VSME ED). It summarises the considerations of the EFRAG SR TEG and SRB used in developing the proposed contents of the Exposure Draft.

About EFRAG

EFRAG's mission is to serve the European public interest in both financial and sustainability reporting by developing and promoting European views in the field of corporate reporting. EFRAG builds on and contributes to the progress in corporate reporting. In its sustainability reporting activities, EFRAG provides technical advice to the European Commission in the form of draft European Sustainability Reporting Standards (ESRS) elaborated under a robust due process and supports the effective implementation of ESRS. EFRAG seeks input from all stakeholders and obtains evidence about specific European circumstances throughout the standard setting process. Its legitimacy is built on excellence, transparency, governance, due process, public accountability and thought leadership. This enables EFRAG to speak convincingly, clearly, and consistently, and be recognised as the European voice in corporate reporting and a contributor to global progress in corporate reporting.



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Table of contents

Introduction	5
Modules that constitute VSME ED	11
Principles for preparation of the sustainability report (Basic Module, Narrative-PAT, Business Partners)	15
Basic module	16
Disclosure B 1 – Basis for preparation	17
Disclosure B 2 – Practices for transitioning towards a more sustainable economy	17
Environmental metrics	17
Disclosure B 3 – Energy and greenhouse gas emissions	17
Disclosure B 4 – Pollution of air, water and soil	18
Disclosure B 5 – Biodiversity	18
Disclosure B 6 – Water	19
Disclosure B 7 – Resource use, circular economy, and waste management	19
Social metrics	20
Disclosure B 8 – Workforce – General characteristics	20
Disclosure B 9 – Workforce – Health and safety	20
Disclosure B 10 – Workforce – Remuneration, collective bargaining, and training	20
Disclosure B 11 – Workers in the value chain, affected communities, consumers and end-users	21
Business conduct metrics	21
Disclosure B 12 – Convictions and fines for corruption and bribery	21
Principles for the preparation of the sustainability report (Narrative-PAT, Business Partners)	22
Principles of Materiality to be applied for the Narrative-PAT and Business Partners modules	22
Narrative-Policies, Actions and Targets (PAT) module	23
Disclosure N 1 – Strategy: business model and sustainability related initiatives	23
Disclosure N 2 – Material sustainability matters	23
Disclosure N 3 – Management of material sustainability matters	23
Disclosure N 4 – Key stakeholders	24
Disclosure N 5 – Governance: responsibilities in relation to sustainability matters	24
Business Partners module	24
List of material matters	24
Entity-specific consideration when reporting on GHG emissions under B3 (Basic module)	25
Disclosures in the BP module	25
Disclosure BP 1 – Revenues from certain sectors	25
Disclosure BP 2 – Gender diversity ratio in governance body	25
Disclosure BP 3 – GHG emissions reduction target	26
Disclosure BP 4 – Transition plan for climate change mitigation	26
Disclosure BP 5 – Physical Risks from climate change	26
Disclosure BP 6 – Hazardous waste and radioactive waste ratio	26
Disclosure BP 7 – Alignment with internationally recognized instruments	26
Disclosure BP 8 – Processes to monitor compliance and mechanisms to address violations	26
Disclosure BP 9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles (including the principles and rights set out in the 8 fundamental conventions of the ILO Declaration and the International Bill of Human Rights)	27
Disclosure BP 10 – Work-life balance	27

Disclosure BP 11 – Number of apprentices	27
Appendix A – Defined Terms	28
Annex 1: List of public meetings on VSME	37
Annex 2: List of internal meetings on VSME	38
Annex 3: List of outreach meetings	39
Annex 4: Breakdown of VSME community members	40
Annex 5: Comparison of SFDR, Benchmark Regulation and Pillar 3 datapoints in VSME ED and ESRS Set 1	41
Annex 6: Trickle-down and value chain cap	48
Annex 7: Timing and location of the sustainability report in European countries	59
Annex 8: Changes agreed by the EFRAG SRB to the version of the ED as approved by EFRAG SR TEG	61

Introduction

- BC1. The objective of this document is to describe the process followed in defining the Exposure Draft for the EFRAG Voluntary Standard for non-listed small, medium undertakings (including micro undertakings, 'SMEs') ('the VSME ED' or 'the ED'), including the methodological approach taken, the main content of the ED and the key aspects discussed by the EFRAG Sustainability Reporting Board ('SRB') and the EFRAG Sustainability Reporting Technical Expert Group ('SR TEG').
- BC2. EFRAG's work on such a voluntary standard for non-listed micro, small and medium undertakings is outside in the Corporate Sustainability Reporting Directive ('CSRD'). It stems from the market need to have a common point of reference to be used by SMEs to face growing sustainability data requests from business counterparties and lowering entry barriers for non-listed SMEs to sustainability reporting.
- BC3. The ambition is for the ED to become the basis for lenders, investors and corporate counterparts in value chain when they define their ESG data requests to SMEs. Concretely this means that, based on market acceptance, VSME is expected to limit *de facto* current multiple ESG data requests (a significant burden for SMEs), by replacing the various uncoordinated ESG questionnaires.
- BC4. The purpose of the VSME ED is to support SMEs in:
- (a) contributing to a more sustainable and inclusive economy;
 - (b) improving their management of their sustainability issues. This will support their competitive growth and enhance their resilience in the short- medium- and long-term and the ED can be used as an internal management tool;
 - (c) providing information that will help satisfy data demands from lenders/credit providers and investors, to improve SME access to finance;
 - (d) providing information that will help satisfy the data demand needs of large undertakings requesting sustainability information from their suppliers.
- BC5. Hence, a fundamental aspect of the ED is its market acceptance:
- (a) On the preparers side, SMEs (as well as SMP-small practitioners as proxies of SMEs) accepting the ED as a simple reporting tool to start their sustainability journey, monitor sustainability performance while also responding to growing request of sustainability data from business partners; and
 - (b) On the user side, acceptance by business partners, i.e. lenders, investors, and corporate clients to replace their multiple questionnaires and use instead the ED to gather sustainability data from SMEs. Those data requests fulfil the needs under their ESRS reporting obligations or managing sustainability risks in investment portfolios or in the supply chain.
- BC6. The [EC Q&A](#) that accompanies the adoption of the Delegated Acts ESRS in July 2023 (Commission Delegated Regulation (EU) 2023/2772 - hereafter also referred to as "ESRS set 1"), contains specific text about non-listed SMEs that can be summarised as follows:
- (a) Some non-listed SMEs not subject to any sustainability reporting requirements under the Accounting Directive (Directive 2013/34/EU) as amended by CSRD may nevertheless receive requests for sustainability information from customers, banks, investors or other stakeholders. "EFRAG is therefore also developing simpler, voluntary standards for use by non-listed SMEs. These voluntary standards should enable non-listed SMEs to respond to request for sustainability information in an efficient and proportionate manner, and so facilitate their participation in the transition to a sustainable economy."
- BC7. The EC SME Relief Package of September 2023 refers to VSME as a measure to support SMEs in accessing sustainable finance. In paragraph 4 it is mentioned that the *Commission will ensure that SMEs have a simple and standardized framework to report on ESG issues [.....], ensuring the rapid delivery of voluntary standards for non-listed SMEs.*

BC8. Reflecting the above, the logic followed in the standard setting has been to prioritise the identification of a proportionate set of indicators as a credible replacement for at least a substantial component of the questionnaires currently used. Providing a complete picture of the ESG impacts that would inform stakeholders other than lenders, investors and corporate clients in keeping SMEs accountable for impacts is not the focus of this ED.

EFRAG due process to date and approval

BC9. VSME was discussed for the first time by SR TEG on 17 November 2022. The EFRAG SRB decided on 27 January 2023 to follow the building block approach. In particular, the EFRAG SRB discussed the need to develop a single standard for all SMEs; or two separate standards:

- (a) ESRS for listed SMEs (identified in this document as ESRS LSME ED or LSME ED or LSME), legally binding, according to CSRD art. 19 a) 6; and
- (b) VSME (i.e. voluntary sustainability reporting standard for non-listed SMEs).

The EFRAG SRB consensually agreed to instruct the SR TEG to:

- (c) Start with ESRS LSME ED;
- (d) Do not overdo ESRS LSME ED (proportionality) but remain within the remit of the CSRD constraints;
- (e) Once the LSME ED basis is stabilised, consider VSME (including the PTF draft¹) from a consistency and additional proportionality perspective;
- (f) Consider merging ESRS LSME ED and VSME if appears relevant.
- (g) The requirements for both listed and non-listed SMEs should be available at the same time.

BC10. With reference to the point (d), the technical activities leading to the drafting of the two standards after this meeting showed that the differences in purpose and perimeter of application of the two respective standards require different approaches to the requirements. Merging of the two standards would have failed to meet the needs of the respective constituencies.

BC11. Successively VSME was discussed as follows:

- (a) Nine EFRAG SR TEG meetings as illustrated in Annex 1.
- (b) Eight EFRAG SRB meetings as illustrated in Annex 1.
- (c) Internal meetings with the EFRAG SME Expert Working Group were held between December 2022 and November 2023 as illustrated in Annex 2.
- (d) Workshops with EFRAG VSME community and several stakeholders representing SMEs, banks and large corporates were held between January 2023 and November 2023, please see Annex 3.

BC12. The outcomes of these meetings and how the various technical suggestions were incorporated is outlined in the next chapters of this document. Another important element was the internal consultation during the summer of 2023 to gather detailed feedback on VSME v2² from EFRAG SRB and SR TEG.

¹ Proposal by former EFRAG Project Task Force ESRS (PTF-ESRS), cluster 8 ([Issue Paper 03-0, Appendix 1 of SR TEG meeting of 17 November 2022](#)).

² The internal working paper process has usually three progressive versions of the documents, before they are considered an 'Exposure Draft'. The versions are labelled 'V1' – preliminary draft prepared by the EFRAG Secretariat, 'V2' – resulting from a round of SR TEG and SRB discussions; 'V3' – pre final draft. Detailed written feedback is requested to EFRAG SR TEG and SRB members on V2.

- BC13. VSME ED was approved at EFRAG SR TEG on 8 November 2023 on a consensus basis, with 23 SR TEG members³ recommending the issuance of the ED for consultation.
- BC14. While voting in support of the ED, Luc Hendrickx qualified his vote, expressing disagreement on the inclusion of the following disclosures: i) convictions and fines, ii) definition of accidents in B 9 and iii) diversity of the board members in BP 2. He also expressed reservations on the usefulness and benefits of the Business Partner module. Despite these reservations, he supported issuing the ED in its current version for consultation.
- BC15. On 29 November 2023 EFRAG SRB agreed on the following changes to the VSME ED as approved by EFRAG SR TEG (see also Appendix 8):
- **Scope 3 emissions as entity-specific disclosure in BP module:** clarify that the entity-specific consideration, when appropriate, will lead to a separate item of disclosure. Accordingly, a reference has been added to Basic Module, B3, *Scope 1 and 2 GHG emissions* to clarify that this disclosure would be an entity-specific expansion. The EFRAG SRB also considered it appropriate to ask in this consultation whether this should be a separate datapoint instead of a 'consideration', to support understanding by users.
 - **BP3:** when Scope 3 GHG emissions are considered in the targets and disclosed as an entity-specific disclosure, their amount should be presented as part of the BP3 disclosures..
 - Some EFRAG SRB members considered essential to include in the Basic Module a disclosure about (i) workers in the value chain, (ii) affected communities and (iii) consumers and end-users. These members considered the reference included in paragraph 22 and 62 of the draft approved by the EFRAG SR TEG, as insufficient as it is not in the Basic Module. Some EFRAG SRB members agreed with the EFRAG SR TEG conclusions. As a compromise, a new voluntary disclosure in paragraph 37 was introduced with a specific question in the consultation. As a consequence, the following paragraph in B2 was deleted: *This may include the practices in relation to climate change, pollution, water and marine resources, biodiversity and ecosystems, circular economy, own workforce, workers in the value chain, affected communities, consumers and end-users, or business conduct.*
 - **Incorporation by reference:** broaden the reference beyond financial statements to "other regulatory reports" and a question in the consultation included.
 - **On paragraph 5,** include reference to paragraph 19 to clarify the options that exist, next to those in paragraph 5.
 - Reservations were expressed about the social disclosure in **BP 7, 8 and 9** which mirrors the relevant to meet the requirements of Principal Adverse Impact (PAI) indicators in the Sustainable Finance Disclosures Regulation (SFDR) datapoints. In particular, the objective of these three disclosures is to assess the SME's commitment to respecting human rights. The ED has used the same terminology of SFDR, applicable to the financial market participants (for example banks), for consistency purposes. The reservations were linked to the fact that there may be alternative disclosures covering the same objective regarding the human rights of own workforce, but more suitable than these disclosures. These metrics relate to due diligence as described in the international instruments. A specific question was included in the consultation.

³ Chiara Mio (*), Sigurt Vitols, Maria Mora (*), Alexandra van Selm, Thomas Schmotz (*), Belen Varela, Carlota de Paula Coelho, Christoph Toepfer, Philip Diaz, Anne Claire Ducrocq, Eric Duvaud, Giulia Genuardi, Johan Dahl, Julian Muller, Katerina Katsouli, Klaus Hufschlag, Luc Hendrickx, Luca Bonaccorsi, Piotr Biernaki, Sandra Adler, Signe Andreasen Lysgaard, Piermario Barzaghi, Chiara del Prete. (*) indicates approval was in writing.

BC16. Subject to the changes described above, 21 EFRAG SRB members⁴ approved the ED on a consensus basis for public consultation. The EFRAG SRB member Annina Tanhuanpää, representing the banking sector, expressed reservations regarding the current proposed standards as the ED VSME may not be sufficiently simplified, potentially imposing an undue burden on SMEs. She also noted the reservations expressed by SME representatives in the EFRAG SR TEG on the usefulness and benefits of the Business Partner module. She agreed to issue the ED for consultation, expecting that the consultation would help addressing these concerns.

Scope of VSME ED

BC17. Paragraph 2 of the VSME ED explains that this is a voluntary Standard and applies to undertakings whose securities are not admitted to trading on a regulated market in the European Union (i.e. not-listed). Article 3 of [Directive 2013/34/EU (the Accounting Directive)], defines and distinguishes three categories of small and medium-sized undertakings based on their balance sheet total, their net turnover and their average number of employees during the financial year, as follows:

- (a) Micro if it does not exceed two of the following thresholds: €350,000 in balance sheet total, €700,000 in net turnover and 10 employees;
- (b) Small if it does not exceed two of the following thresholds: €4 million in balance sheet total, €8 million in net turnover, or an average of 50 employees.
- (c) Medium if it does not exceed two of the following thresholds: €20 million in balance sheet total, €40 million in net turnover and 250 employees.

BC18. The balance sheet and net revenue criteria indicated above are currently being adjusted by the “EC Delegated Act amending Directive 2013/34/EU as regards the adjustments of the size criteria for micro, small, medium-sized” with implementation as of January 2024 (reports 2025). Hence the text of this Standard in paragraph 2 will be adjusted accordingly as indicated by the dynamic link by way of the square brackets in the VSME ED.

BC19. Micro, small and medium companies (as defined above) are the vast majority of companies in Europe. They are in total 24.3⁵ million with the following breakdown:

- (a) Micro = 22.7 million companies (93.5% of total EU companies)
- (b) Small = 1.3 million companies (5.5% of total EU companies)
- (c) Medium = 194.400 companies (0.8% of total EU companies).

BC20. In this document “non listed SMEs” is used to identify the undertakings in scope of VSME ED, including also micro-undertakings.

Useful references in the CSRD

BC21. The following references in the CSRD are important, providing the background:

- (a) **Art 29b4** indicates that standards for listed SMEs, small non-complex banks and captive (re)insurances (ESRS LSME ED) will legally cap the information which ESRS can require large undertakings to obtain from SMEs in their value chains.

⁴ Patrick de Cambourg, Wim Bartels (*), Grégoire de Montchalin, Salvador Marin (*), Tegwen Le Berthe (*), Aleksandra Palinska, Annina Tanhuanpää, Stefan Schnell, Luc Vansteenkiste, Marcello Bianchi, Simon Braaksma, Monika Brom, Laurence Rivat, Kerstin Lopatta, Charlotte Söderlund, Kristian Koktvedgaard (*), Carlos Moreno, Begoña Giner, Filip Gregor, David Vermijs, Thierry Philipponnat. (*) indicates approval was in writing.

⁵ [Annual Report](#) on European SMEs 2022/2023 published by the European Commission. (Di Bella, L., Katsinis, A., Laguera Gonzalez, J., Odenthal, L., Hell, M. and Lozar, B., Annual Report on European SMEs 2022/2023, Publications Office of the European Union, Luxembourg, 2023, doi:10.2760/028705, JRC134336.)

- (b) **Recital 21** indicates that small and medium-sized undertakings that are not listed on a regulated market in the Union should also have the possibility of choosing to use the simplified LSME on a voluntary basis.
- (c) **Recital 21** indicates also that such standard will therefore help to protect and enhance the access of smaller undertakings whose securities are admitted to trading on a regulated market in the Union to financial capital, and avoid discrimination against such undertakings on the part of financial market participants.
- (d) **Recital 22** says that Member States should be free to assess the impact of their national transposition measures on small and medium-sized undertakings, to ensure that they are not disproportionately affected, with specific attention to be given to micro-undertakings and to avoiding an unnecessary administrative burden. Member States *should consider introducing measures to support small and medium-sized undertakings in applying the sustainability reporting standards.*

BC22. With reference to Art 29b4 above, the ED does not have a legal role in setting the cap under CSRD, according to the interpretation of the CSRD as confirmed to EFRAG by the the representatives of the European Commission that are observers in the EFRAG due process. The ED is expected to form the basis for lenders, investors and corporate clients of non-listed SMEs, when defining sustainability data requests to SMEs. Assuming that VSME ED can replace a substantial part of existing ESG data requests to SMEs (assumption to be tested in this public consultation), the ED set a *de facto* limit to the current multiple ESG data requests that SMEs are facing. Current EFRAG considerations are detailed in the section **Trickle-down effect** below.

One or two different reporting standards for SMEs

- BC23. With reference to Recital 21 above, EFRAG considered whether the non-listed SME should also apply LSME ESRS ED, resulting in a single standard for SMEs.
- BC24. EFRAG was requested by several stakeholders to develop a separate standard consisting of minimum voluntary disclosures adapted to the characteristics and capacities of non-listed SMEs, because a standard for listed SMEs would be too complex to apply for them.
- BC25. In particular, the outreach conducted with the banking sector reflected the need to cover micro undertakings in the scope of VSME. The EFRAG SR TEG and SRB considered that the level of simplification and proportionality of a voluntary standard suited for use by micro and small undertakings would be irreconcilable with the minimum disclosures needed by investors. The aim is to avoid discrimination against of listed SME on the part of financial market participants (see Recital 21).
- BC26. The VSME ED does not specify that non-listed SME may, as an alternative to the use of VSME, apply LSME ESRS ED or even ESRS Set 1. In absence of the ED, the specification that non-listed SMEs may use on a voluntary basis LSME ESRS would have been necessary. However, as EFRAG has developed VSME ED, this specification is considered unnecessary. The possibility to apply LSME ESRS ED exists also without such specification and could create confusion for users of the VSME ED.

Simplified language and coherence with ESRS Set 1

- BC27. Paragraphs 3 and 4 of the ED explain that the consistency of VSME ED with the European Sustainability Reporting Standards ('ESRS') for large undertakings has been carefully considered. EFRAG has sought to pursue a consistent set of standards belonging to the ESRS literature. This will facilitate the understanding of the requirements by users and preparers. The same list of sustainability matters (Appendix B of the ED which replicates AR 16 in ESRS 1 of Set 1) is used in VSME, LSME and ESRS Set 1.
- BC28. Although the ED has been designed with highly simplified structure and language, maintaining the consistency between this Standard and the ESRS was a key methodological element. This follows the approved connected **building block** system across the ESRS to allow all undertakings from the micro to multinationals report on sustainability.

- BC29. The VSME ED has not been conceived as a simplification of ESRS Set 1. Rather, it has been designed based on the frequently observed data requests from lenders, investors and corporate clients of SMEs. The ED also uses a more simplified language than ESRS LSME ED to prioritise proportionality, however coherence has been preserved between VSME ED and LSME ED (and ESRS Set 1), in terms of structure, sustainability matters and key defined terms. As a result, in a broader sense, the building block includes the following 4 steps:
- (a) VSME (Basic metrics module), "metrics dataset";
 - (b) VSME (Narrative PAT module);
 - (c) VSME (Business partner module);
 - (d) ESRS LSME: All VSME modules + other EU datapoints + additional datapoints due to CSRD and users' needs and value chain dimension (and adjustments due to the consolidated view in VSME vs individual view in ESRS LSME ED); and
 - (e) ESRS Set 1.
- BC30. The language simplification in this ED (in particular in the Basic Module) based on detailed comments over the summer feedback period aimed at clarity of defined terms in line with the terminology of Set 1 ESRS.

Trickle-down effect and value chain cap

- BC31. This section present the assessment of EFRAG SR TEG and EFRAG SRB about the role that VSME ED, if accepted by the market as the reference for collecting sustainability data from non-listed SMEs, would play in reducing the reporting burden for non-listed SMEs. This assessment is the subject of specific questions in this consultation. Annex 6 provides more details on the analysis performed.
- BC32. Under the provisions of the CSRD(art 29b 4), the ESRS Set 1 for large undertakings shall not specify disclosures that would require large undertakings to obtain information from SMEs in their value chain that exceeds the information to be disclosed pursuant to ESRS that EFRAG is developing for listed SMEs (LSME ED) and that is put in consultation at the same time of the consultation. VSME EFRAG work identifies this legal requirement as 'value chain cap'.
- BC33. While the vast majority of value chain SMEs of the large undertakings are not in scope of LSME, from a legal perspective the standard-setting process must follow the limitation introduced by the legislators in the CSRD (i.e., ESRS LSME ED, and not VSME, is legally setting the value chain cap).
- BC34. During the development of LSME ED and VSME ED the value chain cap and the need for proportionality were extensively debated to appropriately balance expectations of SME preparers and users of SME information. Part of the discussions focused on the so-called "trickle down" effect (i.e. the reporting burden for non-listed SMEs deriving from reporting obligations of their counterparties that are large undertakings and that apply ESRS Set 1).
- BC35. The table in Annex 6 provides a detailed analysis of ESRS Set 1 datapoints with a value chain dimension (see the value chain map in the [draft EFRAG IG 2 Value Chain Implementation Guidance](#)) with reference to the "trickle down" effect under two perspectives:
- (a) Perspective 1, focusing on the potential burden to SME suppliers due to data requests for ESRS reporting from Set 1 preparers. This perspective looks at what are the corresponding datapoints in ESRS LSME ED (which establish the legal value chain cap) and in VSME ED and how proportionate they are. This perspective covers the trickle-down effect recognised and rationalised by the ESRS LSME ED and VSME ED and takes account of the Set 1 provisions and guidance regarding the preparation of information related to value chain (in particular, in relation to the collection of data and the use of secondary data such as proxies, statistics and estimates).

- (b) Perspective 2, focusing on the correspondence between the value chain datapoints in Set 1 and those in the ESRS LSME ED. This perspective looks at whether and to what extent there could be potential (additional) trickle-down effect on SMEs deriving from data not covered by the ESRS LSME ED disclosure requirements and VSME ED (under any of the three modules for VSME).
- BC36. As a reminder, the guiding principle for both EDs was simplification, while meeting users' needs. Both standards are sector agnostic. Specific sectorial perspectives, as well as supply chain management policies or labels or data platforms developed by certain groups of undertakings ("specific arrangements") may introduce specific requirements which are not covered by the analysis presented in Annex 6.
- BC37. As illustrated in Annex 6, LSME ESRS ED is the reference for the value chain cap and has been defined on the basis of the provisions of the CSRD, in particular with respect to needs of financial markets participants (including SFDR PAIs) and proportionality.
- BC38. In this context the LSME disclosure requirements are proportionate for listed SMEs while not impairing the capacity of ESRS Set 1 preparers to report on their value chain, except for the implementation of possible specific arrangements or entity-specific disclosures.
- BC39. The EFRG SR TEG and EFRAG SRB concluded that:
- (a) While ESRS cannot result in large undertakings having to request disclosures that are not included in ESRS LSME ED, the VSME ED is intended to play a key role in supporting SMEs, when they prepare the information needed by large undertakings for ESRS reporting, as well as for other obligations including for business purposes.
 - (b) Therefore, VSME ED modules (in particular Narrative-PAT and Business Partner) include simplified disclosures that generally correspond to the reasonable expectations of ESRS Set 1 preparers (i.e. large undertakings that prepare their sustainability statement under ESRS). As a consequence, non-listed SMEs that apply VSME ED will in general be able to meet the data requests defined for value chain in LSME ED, except for very specific cases.
 - (c) These cases correspond to disclosures which are included in LSME ED (therefore SMEs may receive data requests from large undertakings relating to these disclosures, either due to their ESRS reporting obligations or for other obligations and business purposes), but are not included in the VSME ED, due to their excessive complexity for non-listed SMEs in general. They are principally of a sectorial nature (GHG Removals, substances of concern/high concern, resource inflows), mainly needed for management or specific arrangement purposes.

Modules that constitute VSME ED

- BC40. Paragraph 5 of the ED explains that VSME consists of 3 modules:
- (a) Basic module: it is the entry level for non-listed SMEs and has a highly simplified language. No materiality assessment is required in this module. All the disclosures have to be reported. For most metrics the notion of "applicability" in certain defined circumstances is introduced as a filter to guide the relevance of the reporting for the undertakings. This module is the target approach for micro-SMEs. The concept of materiality was removed from this module and replaced with the concept of "applicability" as a materiality analysis requirement was considered too complex for micro-SMEs. This is consistent with the feedback EFRAG received. The "if applicable" concept guides SMEs to assess and filter whether the disclosure requirement applies or not. In general, when undertaking's circumstances are different from those that would trigger disclosure of that specific datapoint, no information for the specific datapoint has to be provided.

- (b) Narrative- Policies, Actions and Targets (PAT) module: includes the definition of financial and impact materiality and requires performing materiality analysis in order to disclose which of the sustainability matters listed in AR 16 of ESRS 1 in Set 1 are material to the undertaking. This will allow users to understand for which material matters the undertaking does not have PAT in place. This module leverages on the definitions used in Set 1 ESRS, to result in balanced and reliable depiction of what the company is doing to address sustainability matters, avoiding greenwashing. However, for proportionality reasons, this module only requires reporting the PAT that the company has in place and no information is required when they have no PAT in place for a material matter (in addition to the list of material matters themselves). This module is expected to be used by companies that have already started their journey on sustainability and have PAT to describe.
- (c) Business Partners module (BP): SMEs are expected to use this module only when they have ESG requests from business partners. It includes the metrics required by financial market participants (SFDR PAI Table 1, Pillar 3, Benchmark regulation) plus other metrics relevant for business counterparts. The assumption (to be tested in the consultation) is that the EU SF datapoints can satisfy the data needs of both banks or corporates as SFDR PAI are considered proxies to manage the sustainability profile of SMEs clients (banks/investors) and suppliers (corporates). If an SME does not apply the Narrative-PAT module but applies the Business Partners module, it has to report the list of material matters (based on the list of AR 16 of ESRS 1 Set 1). The metrics in this module are to be reported if applicable or if they are considered material. For simplification purposes, whenever possible datapoints reflect the “if applicable”⁶ concept described above. As the complexity of materiality analysis was a concern in the initial feedback, this approach will be tested in the public consultation, including its consequences on the completeness of data needed by Business Partners.

- BC41. EFRAG SR TEG and SRB considered a modular approach as a logical and practical way to overcome the complexity of dealing with a broad and diversified class of undertakings (from less than 10 employees to 249 employees). It also assists in meeting two objectives (i) provide a very simplified approach for entrepreneurs to embark on the sustainability journey and (ii) to satisfy a substantial part of the data demands from business counterparties.
- BC42. SMEs may choose to adopt the Basic module only, or to complement it with either or both of the other two modules, depending on the maturity of their sustainability practices and data demands they are subjected to. The adoption of the modular approach allows defining a path from the Basic module to more sophisticated reporting.
- BC43. The three modules have been defined on the basis of:
- (a) feedback from the EFRAG SR TEG and SRB collected in the internal consultation during summer 2023 and the written consultation of EFRAG VSME Community and SME Expert Working Group (details in Annex 2 and 4 of this Basis for Conclusions);
 - (b) in-depth analysis of ESG questionnaires of business partners (detailed information in BC 45);
 - (c) outcome of outreach events (detailed information in Annex 3 of this Basis for Conclusions);
 - (d) content of a working document prepared by Cluster 8 of the EFRAG Project Task Force ESRS (PTF-ESRS). The PTF developed the Exposure Drafts for the ESRS Set 1 before the completion of EFRAG reform, but the Cluster 8 working document was not approved by the EFRAG PTF-ESRS given that Set 1 was the priority. The EFRAG SR TEG and SRB considered that the research performed by Cluster 8 was instrumental to speed up the process of developing the VSME ED⁷.

⁶ The “if applicable” concept could not be included in the following cases: BP 5, 7, 8, 9 and 10.

⁷ [Appendix 1 – Issue Paper 03.01 SR TEG 17 November 2022](#)

- (e) the content of ESRS Set 1 was considered as a ‘cap’, i.e. in general a datapoint that is not in Set 1 is not included. The only additional datapoint is Disclosure BP 11 “Number of apprentices” (refer to BC 142 for detailed explanation on the rationale and technical argumentation for inclusion).

BC44. EFRAG Secretariat analysed 12 examples of ESG questionnaires which included two national central banks, four national federations, one national credit information provider, one national bank, one rating agency and three mixed banks and supply chain (international initiatives) questionnaires. These questionnaires cover around 26,000 SMEs and are part of initiatives that comprise approximately 700 banks and 450 companies in the value chain. Please note that some of these questionnaires have an international scope. EFRAG Secretariat also analysed a questionnaire from one ESG rating agency that is used by more than 100,000 companies.

BC45. On this basis EFRAG secretariat has identified the following recurrences of DRs in VSME ED in the existing questionnaires:

Datapoint in VSME ESR ED	Number of questionnaires in which it is asked
Basic module	
Disclosure B 3 – Energy and greenhouse gas emissions	12
Disclosure B 4 – Pollution of air, water and soil	7
Disclosure B 5 – Biodiversity	4
Disclosure B 6 – Water	9
Disclosure B 7 – Resource use, circular economy and waste management	9
Disclosure B 8 – Workforce – General Characteristics	8
Disclosure B 9 – Workforce – Health and safety	3
Disclosure B 10 – Workforce – Remuneration, collective bargaining, and training Point (b) percentage gap in pay between its female and male employees	7
Disclosure B 11 – Workers in the value chain, affected communities, consumers and end-users	-
Disclosure B 12 – Convictions and fines for corruption and bribery	4
Narrative-PAT module	
Disclosure N 1 – Strategy: business model and sustainability related initiatives	10
Disclosure N 2 – Material sustainability matters	Not applicable
Disclosure N 3 - Management of material sustainability matters Par 60. Actions taken in the reporting period to improve its energy efficiency and to reduce its greenhouse gas emissions	7
Disclosure N 3 - Management of material sustainability matters Par 61. Policies, actions and targets in relation to (i) workers in the value chain; and/or (ii) consumers and end-users; and/or (iii) affected communities	3
Disclosure N 3 - Management of material sustainability matters Par 62. Actions taken to address breaches in procedures and standards of anticorruption and anti-bribery.	8
Disclosure N 4 – Key stakeholders	7
Disclosure N 5 – Governance: responsibilities in relation to sustainability matters	7
Business Partners module	
Disclosure BP 1 – Revenues from certain sectors	5
Disclosure BP 2 – Responsibilities in relation to sustainability matters	6

Datapoint in VSME ESR ED	Number of questionnaires in which it is asked
(Gender diversity ratio in governance body)	
Disclosure BP 3 – GHG emissions reduction target	7
Disclosure BP 4 – Transition plan for climate change mitigation	7
Disclosure BP 5– Physical Risks from climate change	9
Disclosure BP 6 – Hazardous waste and radioactive waste ratio	4
Disclosure BP 7: Alignment with internationally recognized instruments	6
Disclosure BP 8: Processes to monitor compliance and mechanisms to address violations	5
Disclosure BP 9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles	3
Disclosure BP 10 – Work-life balance	1
Disclosure BP 11 – Number of apprentices	3

- BC46. In outreaches, all categories of business partners recognised the three modules of VSME as relevant and the highlighted the importance of the Business Partners module. Banks highlighted that for them the Narrative-PAT module would be of limited use . Consolidation of the information in the Narrative module would be too complex, given its qualitative and less structured nature in the context of the very large number of SME clients in their banking book. On the basis of the available feedback, the EFRAG SR TEG and EFRAG SRB have designed the Business Partner module to serve the different categories of Business Partners, but this assumption will be tested in this consultation.
- BC47. Paragraph 5 of the ED refers to paragraph 21, that illustrates the available options for the preparation of a sustainability report, adopting one or more of the three modules of VSME ED. Once chosen, the undertaking shall comply with a module in its entirety, i.e. including the information in each disclosure that is applicable to the undertaking’s specific circumstances to avoid cherry picking and promoting comparability. To ensure flexibility, the undertaking may include selected disclosures from either of the remaining modules and/or entity-specific or sector-specific disclosures (see para. 11 of the ED) to support provision of relevant, faithful, comparable, understandable and verifiable information.
- BC48. Paragraph 6 of the ED explains that the Basic module is a prerequisite for the other two modules. The flexibility described in BC 46 is assumed to lower entry barriers for preparers and would allow meeting users’ needs to the maximum extent possible.
- BC49. Paragraph 7 refers to Appendix A “Defined Terms” that provides a glossary of terms used. This glossary has mostly the same definitions as ESRS Set 1 or the LSME ED to align the concepts and for the coherence of the building block approach. For some terms however, small changes to Set 1 have been introduced and those simplifications are mapped in the Annex 5 of this document. Finally, definitions to help SMEs such as definitions for “Governance”, “Business Conduct” and “Gross emissions” have been introduced.

Principles for preparation of the sustainability report (Basic Module, Narrative-PAT, Business Partners)

Entity-specific component

- BC50. Paragraph 11 of this ED refers to inclusion of additional entity-specific information. *“Depending on the type of activities carried out by the undertaking, the inclusion of additional information (metrics and/or narrative disclosures) not covered in this Standard is appropriate, in order to disclose about issues that are common in the undertaking’s sector, as this supports the preparation of relevant, faithful, comparable, understandable and verifiable information.”*
- BC51. The inclusion of the entity-specific component was extensively discussed by EFRAG SR TEG and SRB. Some initially supported this exclusion to avoid burdening SMEs with the related judgement that the entity-specific component entails. Others supported such inclusion only on a voluntary basis. Finally, the EFRAG SR TEG and SRB agreed to include the entity-specific component given its importance particularly to add the sector-specific element. Therefore, the ED refers to “issues that are common in the undertaking’s sector”.
- BC52. EFRAG is using this consultation to also receive feedback on its approach to SME sector disclosures. Depending on the outcome, EFRAG may issue sector guidance for SMEs, to be developed in the context of the work planned to issue draft sector ESRS. a list of sector-specific metrics. In this case, the entity-specific component would play a bigger role before the effective date of any sector guidance. However, it may continue to play a role also after this.
- BC53. The stakeholder’s engagement has shown that corporate clients may require additional specific data for certain sectors and therefore already signalling this dimension to SMEs may be useful.
- BC54. This is relevant to both the Basic module and in the Business Partners module. For the latter as entity-specific consideration related to GHG emissions Scope 3 has been introduced especially as indirect emissions are particularly relevant to certain sectors.

Preparation on a consolidated basis

- BC55. Paragraph 12 of this ED recommends that the undertaking prepares its sustainability report on a consolidated basis (i.e., including the information of its subsidiaries), where relevant. The EFRAG SR TEG and EFRAG SRB considered this to be more relevant when an SME operates with subsidiaries.
- BC56. An additional element explored in this consultation is whether a subsidiary exemption to SMEs groups (similarly to art. 19a9 of CSRD for large undertakings) should be granted as this may incentivise SMEs to report on consolidated basis.

Timing and Location of the sustainability report

- BC57. Paragraph 14 ensures that the undertaking has the option of publishing its sustainability report either as a separate section of the management report or as a different document, this is to reflect the different legal regimes in European Member States. The table in Annex 7 provides a short overview.

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

- BC58. While worded in a simplified manner, paragraph 16 of this ED is the same as in LSME ESRS ED (Section 1, paragraph 6.6). Some consider that for SMEs the issue of sensitive information may be proportionally more important compared to large undertakings given that the latter have more means to invest in innovative technology, products and solutions. For small start-ups, intellectual property may even be a pervasive competitive advantage.

Basic module

Comparative information

BC59. Paragraph 17 of the ED clarifies that when reporting on the disclosures B-1 to B-12 in the Basic module, comparative information shall be provided. The inclusion of comparative information adds to the relevance and comparability (across periods) of the information. However, for simplification, comparative information would only be provided from the second year of reporting such a disclosure.

Materiality replaced by 'if applicable'

BC60. Paragraph 18 of this ED indicates that the disclosures in the Basic module (B1-B12) are to be reported and preparers do not need to complete a materiality analysis. This important simplification was introduced following feedback during the standard-setting process. The reason is that the performance of a materiality analysis would be too complex for micro undertakings given the judgement and sophistication required in contrast with their average complexity and capabilities. As the Basic module's target audience is micro-undertakings, materiality was replaced with "applicability". This is to guide micro and other SMEs in assessing and filtering whether the disclosure requirement applies to their circumstances or not. The table below illustrates the list of Disclosure Requirements (DRs) in the Basic module that contain the concept "if applicable" and those should "always be reported on".

	If applicable	Always to be reported on
Disclosures	<ul style="list-style-type: none"> - B 2: Practices for transitioning towards a more sustainable economy - B 4: Pollution of air, water and soil - B 5: Biodiversity linked to the exposure of the undertaking to biodiversity sensitive areas or land-use - B 6: Water (paragraph 31 on water consumption linked to production process) - B 7: Resource use, circular economy and waste management point (a) and (b) where the "applicability" is narrowed down to the following formulation "if the undertaking operates manufacturing, construction and/or packaging processes, (...) " - B 8: Workforce - General characteristics point (c) - B 11: Workers in the value chain, affected communities, consumers and end-users - B 12: Convictions and fines for corruption and bribery linked to the existence of fines or convictions in the reporting period 	<ul style="list-style-type: none"> - B 1: Basis for Preparation - B 3: Energy and greenhouse gas emissions - B 6: Water (paragraph 30 on total water withdrawal) - B 7: Resource use, circular economy and waste management point (c) annual waste generation by type and (d) waste diverted to recycle or re-use - B 8: Workforce – General Characteristics breakdown point (a) by type of contract and (b) by gender - B 9: Workforce – Health and Safety - B 10: Workforce – Remuneration, collective bargaining and training

Flexibility in complementing the Basic module

BC61. Paragraph 19 introduces further flexibility by allowing preparers to complement metric disclosures with contextual information for the disclosures B-3 to B-12, either qualitatively or quantitatively. It also allows preparers to report on selected disclosures from either of the remaining modules. This approach facilitates SMEs that want to go beyond the Basic module, but are unable to comply in full with the other modules. This may also assist providing sectoral entity-specific disclosures which will be useful to both preparers and users.

Other sources apart from the questionnaires

BC62. As explained in BC 44 above, the disclosure requirements in the Basic module were derived from existing questionnaires and frameworks⁸. Furthermore, seven out of ten disclosures in this module corresponds to either Principal Adverse Impact indicators of the SFDR or Benchmark regulation datapoints as illustrated in Appendix C of the VSME ED (sometimes only partially, see **Annex 5** below).

Disclosure B 1 – Basis for preparation

BC63. Paragraph 21 clarifies how the different modules can be combined. The undertaking shall disclose which of the possible combination it has selected. The Basic Module is the entry level and the pre-requirement for all other modules. The undertaking can choose to limit its sustainability reporting to the Basic Module only, or to combine it with either or both of the remaining modules. BC 40 and 60 above explains this further.

BC64. Beside indicating which module it has applied, the undertaking has to report if the sustainability report is prepared on a consolidated (provisionally required when the undertaking has subsidiaries pending the outcome of this consultation) or individual basis.

Disclosure B 2 – Practices for transitioning towards a more sustainable economy

BC65. This narrative disclosure provides information about 'current practices', when the undertaking does not have formalised policies, actions and targets in place as transitions to a more sustainable economy and complements the disclosures of the Basic module. This helps business partners (mainly corporates) to assess the level of maturity and engagement with sustainability matters by the SME. When the undertaking discloses its formalised policies, actions and targets and disclose under the Narrative-PAT module, it does not have to provide Disclosure B 2 – *Practices for transitioning towards a more sustainable economy* in the Basic module.

Environmental metrics

BC66. VSME has been developed as an independent standard, developed specifically for the complexity and needs of non-listed SMEs and not as a simplification of the corresponding disclosure requirements in ESRS Set 1. However, in consistency with ESRS concepts has been maintained to the maximum extent possible without compromising on simplification including language.

Disclosure B 3 – Energy and greenhouse gas emissions

BC67. Energy and greenhouse gas emission disclosure requirements are essential in a sustainability report, given the relevance of climate change and the strong link between energy use and emissions. This is present in all 12 of the current questionnaires analysed (refer to BC 44) and also corresponds to an SFDR PAI.

⁸ These include the German Sustainability Code, the Nordic Sustainability Reporting Standards and the CDP Climate disclosure for SMEs.

- BC68. The main challenge for energy was to balance meaningful disclosures including relevant breakdowns on the different types of energy used and the related burden. Therefore, detailed breakdowns were requested in addition to total energy such as fossil fuel energy types (e.g. gasoline, diesel, coal and electricity per utility bills further analysed between renewable and non-renewable electricity). Other forms of energy, e.g. biomass solid fuels, are reported in total, given that these are expected to be relatively minor portions of the overall consumption of energy by SMEs.
- BC69. Energy consumption is to be understood as final energy consumption by the undertaking, i.e., the energy entering the organisational boundaries. As with ESRS E1, if the company converts one energy type into another the energy form to be considered is the one that has entered the boundaries of the company. For example, if an SME uses a gas boiler to produce hot water, the energy consumption is that of gas, rather than hot water which is the final energy carrier.
- BC70. In terms of GHG emissions, it was considered that Scope 1 and location-based Scope 2 (in line with the GHG Protocol and ISO 14064-1) should be minimum requirements. Market-based Scope 2 figures are provided on a voluntary basis ("may").
- BC71. The GHG protocol Scope 3 emission categories were deemed to be potentially too complex for SMEs, especially those that are smaller or lack experience in the reporting process. The EFRAG SRB accepted that incorporating Scope 1 and Scope 2 emissions could pose a significant challenge for those in the intended scope of this ED, in consideration of their scale, resources as well as their maturity in reporting. Banks also indicated in outreaches that in the absence of tailored methodologies for SMEs, they prefer to rely on proxies and indirect calculation to not overburden smaller clients. Therefore, Scope 3 was introduced as an element to be considered by undertakings in high-emissions sectors and/or as an additional entity specific element for more experienced SMEs (in the BP module). The ED indicates the type of organization to which Scope 3 emissions are likely to be significant. However, due to the diverse nature of SMEs and the challenges related to Scope 3, undertakings are advised to refer to the GHG Protocol and calculation guidance. Comprehensive guidance has been introduced in paragraphs 87 to 111 of the ED to assist SMEs.

Disclosure B 4 – Pollution of air, water and soil

- BC72. The disclosure on pollution is limited to quantitative information on emissions into air, water, and soil, including the type of pollutant. The undertaking has to report on its pollutants only if this is already required by existing laws or other frameworks, such as Eco-Management and Audit Scheme (EMAS). Guidance to support the preparation of this disclosure is included in paragraphs 112 to 117 of the ED. The requirement also corresponds to an SFDR PAI and included in seven of the twelve questionnaires analysed (refer to BC 44).

Disclosure B 5 – Biodiversity

- BC73. The disclosure on biodiversity has been limited to quantitative metrics related to land use of the sites the undertaking operates that are located in or near to Biodiversity sensitive areas. b) Land use metrics are used as proxies of the undertaking's biodiversity impact. Separate metrics per each site are required. These metrics have to be reported only if applicable, i.e. if the undertaking has impacts on biodiversity or is potentially exposed to them, e.g. by having operations in or near biodiversity sensitive areas. Ambiguity existed on how to assess the proximity to such areas. It was clarified that the term "near" refers to areas inside, overlapping (partially included), or adjacent to such an area. This definition aligns with other sources, such as TNFD and GRI. The land-use footprint metrics are aligned with the reporting metrics used in EMAS⁹. Consistent reporting of land-use metrics over time will also allow the evaluation of the undertaking's land-use change. The requirement corresponds to an SFDR PAI and included in four of the twelve analysed questionnaires (refer to BC 44).

⁹ [EMAS Regulation Annex IV](#)

BC74. Additional guidance has been drafted to support the preparation of this disclosure in paragraphs 118 to 122 of the ED.

Disclosure B 6 – Water

BC75. Initially, this requirement was initially part of the disclosure requirement B7 (on circular economy), but it finally presented as a element of disclosure. In terms of selected metrics, the requirement to disclose water withdrawal and water consumption were included, to be consistent with ESRS Set 1. There was a discussion on the different terms to be used, namely “water use” instead of “water withdrawal”, and “water consumption”, as it would be a term easier to understand for SMEs. The term “water use” lacks definition in major corporate water reporting frameworks, such as ESRS Set 1, GRI, CEO Water Mandate, Water Footprint Network, CDP, WRI, IPIECA, or SASB. However, introducing new terminology is not desirable, even if, in layman terms, “water use” or “water consumption” may be understood as equivalent to the concept of “water withdrawal”. “Water use” can also be understood as the accounting of the multiple water flows within an undertaking – yet another new concept. Therefore, the definition of “water withdrawal” in ESRS Set 1 was used. The disclosure on “water consumption” was retained given its importance even though its applicability may vary among undertakings. This applies specifically when connected with production processes. Specific guidance was introduced in paragraphs 123 to 130 of the ED to define these concepts in simple words. A breakdown detailing water withdrawal in areas of high-water stress was incorporated with guidance on how to identify these areas. This disclosure is included in nine of the twelve analysed questionnaires (refer to BC 44).

Disclosure B 7 – Resource use, circular economy, and waste management

BC76. This disclosure is mainly narrative, reflecting the fact that generic disclosures on resource use management, waste management and application of circular economy principles are narrative in nature. However, some quantitative disclosures have been added, given their relevance to users. Consequently, a disclosure on the recycled and recyclable content of goods and materials (and their packaging) was added, limited to specified sectors (manufacturing, construction and/or packaging processes) to reduce the burden on preparers. This disclosure is requested in nine of the twelve questionnaires analysed (refer to BC 44). For all undertakings, total annual waste generation (and breakdown by type) and total annual waste diverted to recycle, or reuse was included. The breakdown between “non-hazardous” and “hazardous” waste enhances transparency.

BC77. Additionally, guidance was added in paragraphs 131 to 137 on:

- (a) circular economy principles (based on definitions of the Ellen Macarthur Foundation with key principles from the European Commission);
- (b) the rate of recycled content in products and packaging;
- (c) the rate of recyclable contents in products and packaging (reflecting the disclosure of resource inflows and outflows); and
- (d) on how to present information concerning generated waste.

Social metrics

- BC78. VSME has been developed as an independent standard, developed specifically for the complexity and needs of non-listed SMEs and not as a simplification of the corresponding disclosure requirements in ESRS Set 1. However, in defining the detailed metric, attention has been paid to the consistency with concepts in ESRS Set 1, without compromising on simplification including on language.

Disclosure B 8 – Workforce – General characteristics

- BC79. This disclosure requirement is limited to the total number of employees (by full time equivalent or head count) analysed by type of employment contract, by gender and, if applicable, by country. The breakdown by country is provided only if applicable as micro undertakings are often based exclusively in one country. The types of contracts are limited to permanent and temporary in contrast to Set 1 and the ESRS LSME ED. The guidance in paragraphs 138 to 143 of the ED, contains suggested tables to present the requested information on employees' characteristics. The analysis of current business partners questionnaires (see BC 44) showed that this is a frequent data requirement.

Disclosure B 9 – Workforce – Health and safety

- BC80. The disclosure requirement on health and safety is limited to information on the number and rate of recordable work-related accidents and on the number of fatalities as a result of work-related injuries and work-related ill health (SFDR PAI datapoints in ESRS S1-14 b) and c)).
- BC81. Reservations were expressed on the inclusion of commuting accidents as part of the disclosure requirement as the disclosure may differ based on national law. Accidents are defined as in ESRS Set 1. The guidance clarifies that incidents while travelling (outside of the SME's responsibility) are classified as work-related or not based on the applicable national legislation that differs between countries. Therefore, the consultation includes a specific question on this. Guidance on the relevant formula and a numerical example is provided. The source of this disclosure is ESRS S1-14, which is an SFDR datapoint. It is based on the requirements from Article 29 b) of the CSRD together with the ILO Convention and OECD Guidelines.
- BC82. The analysis of current business partners questionnaires (see BC 44) includes this information. The EFRAG SR TEG and EFRAG SRB concluded that the metrics on health and safety are mature within the reporting of undertakings given current requirements (Regulation (EC) No 1338/2008 on Community statistics on public health and health and safety at work and Framework Directive 89/391/EEC on measure to encourage improvements in the safety and health of workers at work). Lastly, additional guidance has included to support the preparation of this disclosure in paragraphs 144 to 151 of the ED.

Disclosure B 10 – Workforce – Remuneration, collective bargaining, and training

- BC83. The analysis of current questionnaires (see BC 44) highlighted that more than half included disclosures requirements on remuneration, collective bargaining and training. Therefore, these aspects have been included in the ED.
- BC84. To address adequate wages, disclosure requires the ratio of the entry-level wage to the minimum wage, at location of significant operations, rather than a PAT requirement. However, this choice is subject to a question in the consultation.
- BC85. The gender pay gap between female and male employees was considered to be more pertinent for the largest companies in scope. Therefore, a threshold of 150 employees based on the Pay Transparency Directive¹⁰, has been included to ensure that the ratio is representative and meaningful. In addition, the information required by this datapoint corresponds to an SFDR PAI.

¹⁰ Directive (EU) 2023/970, Article 9.3 and 9.4

- BC86. Whilst the nature or scope of collective bargaining agreements may vary across countries, the definition for collective bargaining in ESRS S1 covers the main types of agreements in the Member States of the European Union. Therefore, the EFRAG SR TEG and EFRAG SRB agreed to include the percentage of employees covered by collective bargaining agreements. Freedom of association and collective bargaining are fundamental rights enshrined in the international and European human rights instruments referenced in the CSRD, including in UN UDHR Article 23, EU Charter of Fundamental Rights Article 12 and ILO Convention 87. This disclosure demonstrates the extent to which these rights have been exercised to determine the working conditions of the own workforce of an SME.
- BC87. The EFRAG SR TEG and EFRAG SRB also agreed to include the average number of annual training hours per employee and by gender. This datapoint is consistent with Article 29b 2 b) i of the CSRD. Education, training and lifelong training is also defined in Principle 1 of the European Pillar of Social Rights. This first principle outlines the importance of maintaining and acquiring skills to ensure equal opportunities and access to the labour market. It states that everyone has the right to quality and inclusive education, training and lifelong learning in order to maintain and acquire skills that enable them to participate fully in society and manage successfully transitions in the labour market.
- BC88. Additional guidance to support the preparation of this disclosure is available in paragraphs 152 to 163 of the ED.

Disclosure B 11 – Workers in the value chain, affected communities, consumers and end-users

- BC89. As explained in BC 13 above, the EFRAG SRB disagreed with the draft ED approved by EFRAG SR TEG and included a disclosure on workers in the value chain, affected communities and consumers and/or end-users. This is an exception to the general rule to include only indicators that were found in the analysed questionnaires. This exception was to maintain consensus in the approval of the ED, as some SRB members considered it inappropriate not to have a disclosure explicitly covering these groups of affected people. Currently, this is a voluntary disclosure with a specific question asked in the consultation. Disclosure is only applicable as a voluntary datapoint if the SME has a process that covers the disclosure objective.

Business conduct metrics

- BC90. VSME has been developed as an independent standard, developed specifically for the complexity and needs of non-listed SMEs and not as a simplification of the corresponding disclosure requirements in ESRS Set 1. However, in defining the detailed metric, attention has been paid to the consistency with concepts in ESRS Set 1, without compromising on simplification including on language.

Disclosure B 12 – Convictions and fines for corruption and bribery

- BC91. This datapoint includes a metric as it is included in the Basic module, while the proposed disclosures on actions will be covered in the Narrative-PAT Module, when appropriate.
- BC92. The analysis of current questionnaires (see BC 44) highlighted that some questionnaires included similar disclosures. One EFRAG SR TEG member disagreed with the inclusion of this datapoint, as it would be similar to self-incrimination and there are no tools available for SMEs to deal with corruption and bribery. However, other members considered the argument of self-incrimination not valid after a court of law has determined guilt. In addition, they considered that it would be important for the fight against corruption and bribery to keep this datapoint. They also considered that this is an SFDR PAI datapoint. A specific question is included in the consultation on this disclosure. Additional guidance has been included to support the preparation of this disclosure in paragraphs 164 to 167 of the ED.

Principles for the preparation of the sustainability report (Narrative-PAT, Business Partners)

- BC93. Paragraph 39 of this Standard was inserted in order to clarify that the principles i) time horizon and ii) coherence and linkage with disclosures in financial statements, have to be applied when using the Narrative-PAT Module and/or the Business Partners Module. While worded in a simplified manner, those principles are inspired by the corresponding principles in ESRS for large undertakings. The principle of cross-reference with financial statements and more in general to other regulatory reports allows the undertaking to avoid double reporting. This principle is simplified compared to the equivalent in LSME ED and ESRS Set 1, as the conditions to use incorporation by reference have been relaxed.

Principles of Materiality to be applied for the Narrative-PAT and Business Partners modules

- BC94. This section of the Standard illustrates the principles of materiality to be considered by the undertaking when applying the Narrative PAT and Business Partners modules.
- BC95. Feedback indicates that basing requirements on materiality of matters and datapoints based on specific facts and circumstances reduces the burden to preparers, as it allows to reduce the number of recurring disclosures. However, outreach conducted before the issuance of this ED indicates that for smaller and less resourced undertakings having to assess materiality of matters and datapoints is instead a higher source of complexity, given the need for judgement, skilled resources and management time.
- BC96. In order to minimise the reporting burden, in the Basic module datapoints have to be reported 'if applicable' and without materiality assessment. In the Business Partners module, as illustrated above, many of the disclosures are to be reported 'if applicable' and, in general, disclosures are reported when they are assessed to be material (see paragraph 72 of the ED).
- BC97. Finally, the Narrative-PAT module requires to identify and disclose the matters that are material, given the relevance of this information to users. The same is required in the Business Partner module, when an undertaking does not also apply the Narrative-PAT module. However, in the Narrative – PAT module the undertaking only reports on the policies, actions and targets in place. For proportionality reasons, this is not in the Basic Module.
- BC98. As part of EFRAG internal feedback process performed during summer 2023, this materiality section was highly simplified. In particular, a simpler language was used as much as possible without compromising the clarity of the defined terms and the consistency of terminology with Set 1 ESRS.
- BC99. The undertaking is encouraged to use as reference the list in Appendix B called "List of sustainability matters" to identify the sustainability matters to report on. Appendix B mirrors the list of sustainability topics, subtopics and sub-sub-topics contained in ESRS1 para AR16. This promotes consistency across the entire ESRS system and with CSRD provisions, since the topics and sub-topics stem from the content of the CSRD.

Impact materiality

- BC100. The EFRAG SR TEG and EFRAG SRB considered the possibility to limit the scope of impacts to the actual impacts, excluding potential impacts. This was rejected (see paragraph 46 of this ED) because this is the standard practice in reporting frameworks like GRI, OECD and ESRS Set 1 to ensure consistency and relevance. The definitions in SBM-3 ESRS Set 1 for actual and potential impacts was maintained as inconsistencies between impact materiality for Set 1 and the VSME ED could lead to unintended consequences.
- BC101. In paragraph 47 examples related to scale, scope and irremediable character of impact were added to support preparers.

Financial materiality

BC102. For proportionality reasons, the focus in the materiality analysis when determining the list of material matters in the PAT-Narrative and the Business Partners modules of this ED is on impacts and risks. However, financial opportunities have been included as an optional additional disclosure (in paragraph 53).

Stakeholders and their relevance to the materiality analysis process

BC103. Paragraph 56 of this ED maintains the definition of “stakeholders” in ESRS Set 1 to preserve the consistency in the definition of “impacts”, as the former is the conceptual basis for the definition of impacts.

BC104. In particular, the concept of affected stakeholders is an integral component of the definition of an impact. Departing from the definition in Set 1 would raise conceptual questions on consistency between the different standards. While keeping consistency in the concepts, the definition of “users of sustainability statements”, has been simplified given the specificities of the VSME ED as it supports the dialogue of the VSME with a specific group of business partners: banks and clients.

BC105. Paragraph 57 was added on request to specify that the composition of stakeholders may not cover the full list of categories for the reporting undertaking.

Narrative-Policies, Actions and Targets (PAT) module

Disclosure N 1 – Strategy: business model and sustainability related initiatives

BC106. This is an important element of the Narrative-PAT module of the VSME ED to ensure a meaningful description of the undertaking’s business model and key elements of its strategy. However, contrary to ESRS Set 1 that refers *to elements of the undertaking’s strategy that relate to or impact sustainability matters, its business model and its value chain*, the ED refers in general to the strategy. It was considered too complex for SMEs to specify the sustainability angle of its strategy. By describing its main products and or services, markets and business relationships the undertaking would already provide important information on the sustainability profile to their business partners.

Disclosure N 2 – Material sustainability matters

BC107. The list of sustainability matters is to be disclosed based on Annex B “List of Sustainability Matters used for materiality assessment” to allow users to understand for which material matters the undertaking does not have a PAT in place. Despite the complexity of the materiality analysis for SMEs, the disclosure of the list of material matters is considered important. A specific question is asked in the consultation on this point and in general on the materiality approach.

Disclosure N 3 – Management of material sustainability matters

BC108. This disclosure covers the content of policies, actions and targets that the SME has in place.

BC109. There have been significant concerns around using the term ‘due diligence’ in the ED as based on the current drafts and negotiations, SMEs are not in the scope of the future CSDDD (Corporate Sustainability Due Diligence Directive). It was considered that if the term “due diligence” had to be deleted, paragraph 60 would anyway refer to language used international instruments of due diligence; as such this would not have been a real simplification. The term ‘due diligence’ is denoted in square brackets to reflect the ongoing legislative process.

BC110. Paragraph 61 was added as this requirement is present in the majority of the analysed questionnaires (see BC 44).

BC111. As described in BC15, paragraph 62 was introduced on the request of some members of EFRAG SRB.

BC112. The disclosure requirement “actions taken to address breaches” in paragraph 64 complements the Basic module (Metric B 12) and corresponds to an SFDR PAI.

Disclosure N 4 – Key stakeholders

BC113. This voluntary disclosure is applicable only if the undertaking actually engages with stakeholders on sustainability impacts. The disclosure has been simplified in line with other voluntary sustainability frameworks to refer to “categories” of stakeholders rather than “list” of stakeholders.

Disclosure N 5 – Governance: responsibilities in relation to sustainability matters

BC114. This disclosure includes the governance and responsibilities in relation to sustainability matters and corresponds to an SFDR PAI. The gender diversity ratio in the board forms part of the Business Partners module BP 2 “Gender Diversity ratio in governance body” (refer to BC 128 for further information) given its lower relevance for micro-companies.

Business Partners module

BC115. Paragraph 67 explains to reporting undertakings that the disclosures in this module have been included on the expectation that it reflects the data requests from lenders, investors and corporates to their SMEs clients and suppliers. This assumption will be verified in the public consultation.

BC116. As a starting point the SFDR PAI Table 1 and Benchmark Regulation and EBA Pillar 3 datapoints were considered for this module. SFDR PAI in Table 2 were not included for simplification reasons. While these indicators derive from the reporting obligations of investors, they have been considered valid as a reference to report relevant information on sustainability matters for all the users. The outreaches meetings (please refer to the Annex 3 of this Basis for Conclusions) allowed the identification of some datapoints in the Business Partners module that could be added and others that could be removed (i.e. GHG and energy intensity or exclusions from benchmark alignment).

BC117. Some stakeholders requested additional data points, such as taxonomy eligibility and alignment. However, due to the complexity of such disclosures for SMEs and due to the lack of existing adapted simplified tools or methodologies EFRAG excluded this disclosure from the VSME. Please note that the EU Sustainable Finance Platform is currently investigating an adapted methodology for SMEs¹¹.

BC118. Corporates (as clients of non-listed SMEs) confirmed that their needs correspond to the datapoints needed by financial market participants (SFDR PAI, Pillar 3). The same is true of lenders, as the information is also used to assess sustainability of SMEs when managing the lending book. Therefore, this module has been labelled ‘Business Partners module’, to reflect the intention to serve all interested parties, not only financial market participants. This assumption is tested in the consultation.

BC119. Moreover, Appendix C of the ED - *dedicated to financial market participants that are users of the information produced using this Standard* helps users to visualize which disclosure requirements are SFDR, Benchmark Regulation or EBA Pillar 3 Datapoints. Where possible, consistent definitions to Set 1 were kept as only a minimum level of language simplification was achieved (refer to Annex 5).

List of material matters

BC120. Paragraph 68 reiterates the concept of materiality already explained in BC94-105 for the Narrative-PAT Module.

¹¹ European Commission, SMEs Relief Package, September 2023, page 16: “In particular, simplified approaches, developed together with the Platform on Sustainable Finance, should allow non-listed SMEs to benefit from the use of the taxonomy”.

Entity-specific consideration when reporting on GHG emissions under B3 (Basic module)

BC121. The VSME excludes the requirement to report absolute Scope 3 emissions under the Basic module (Disclosure B 3) given the complexity and lack of free available tools to SMEs. However, the EFRAG SR TEG and SRB added an entity-specific consideration related to GHG Scope 3 was included in this module to encourage more advanced SMEs or those in sectors where indirect emissions may be more relevant, to disclose such information.

Disclosures in the BP module

BC122. Paragraph 72 explains the concept of materiality that applies to the Business Partners module. An undertaking reports only those disclosures that are material to the undertaking. When the disclosure is not material to the undertaking, the undertaking does not have to disclose it. While BP 5, 7, 8, 9 and 10 require to apply the materiality filter and the “if applicable” logic does not apply, the other disclosures are to be reported only “if applicable”. This further simplifies the reporting. This approach is tested in the consultation.

BC123. Specific guidance, integral to the standard, has also been included in the module. Paragraph 73 indicates where to find the guidance in the ED.

Disclosure BP 1 – Revenues from certain sectors

BC124. This datapoint requires the undertaking to disclose whether they are active, and the related revenues from certain sectors.

BC125. When comparing this disclosure with ESRS Set 1, the taxonomy part of it was explicitly excluded in the methodological approach from the Business Partners module (Annex 5).

BC126. The sectors have been identified as carrying sustainability risks according to defined criteria based on certain legislation applicable to financial institutions. Therefore, lenders and investors require this information.

BC127. Additional guidance to support the preparation of this disclosure is in paragraphs 169 to 170 of the ED.

Disclosure BP 2 – Gender diversity ratio in governance body

BC128. This datapoint was subject to significant debate with those disagreeing with this datapoint arguing that SMEs are mostly family businesses, and thus have a limited choice on gender diversity. Furthermore, SMEs are not in scope of Directive (EU) 2022/2381 to improve the gender balance among directors of listed companies and related measures. Those that disagreed argued that as for larger companies, female family members could take part in the governance bodies of these businesses. In addition, they consider that transparency on important matters such as gender diversity and inclusion are important for users. Finally, it was agreed to include this datapoint in this module, it being an SFDR datapoint, subject to consultation.

BC129. When drafting the datapoint, two possible alternatives for the calculation of the metric have been considered. The SFDR uses the metric of number of female members to male members. The more generally used and simpler formula is the number of female members (or male members) to the total number of members of the governance bodies. EFRAG adopted the first one to be aligned with the SFDR and the sector agnostic standards as adopted by the European Commission on 31 July 2023.

BC130. Additional guidance to support the preparation of this disclosure is available in paragraphs 171 to 173 of the ED.

Disclosure BP 3 – GHG emissions reduction target

- BC131. This disclosure provides guidance for undertakings opting to enhance their Basic module B3 reporting. BP3 is an SFDR PAI and a Benchmark Regulation disclosure and requested by 7 of the 12 analysed questionnaires. The EFRAG SRB agreed to include Scope 3 GHG emission reduction targets, when they do exist, and when the Scope 3 GHG emissions are reported according to paragraph 71 (entity-specific information) in contrast to the recommendation by EFRAG SR TEG.
- BC132. Additional guidance to support the preparation of this disclosure is available in paragraphs 174 to 177 of the ED.

Disclosure BP 4 – Transition plan for climate change mitigation

- BC133. This datapoint is aligned with Climate Benchmark Regulation (see Annex 5). A simplified explanation of the role of the transition plan for climate change mitigation, along with the characteristics to create a credible transition pathway, has been provided. Additional guidance to support the preparation of this disclosure is available in paragraphs 178 to 179 of the ED. To enhance simplicity, this disclosure requirement does not consider potential locked-in GHG emissions and the reference to the Taxonomy Regulation.

Disclosure BP 5 – Physical Risks from climate change

- BC134. As the EBA Pillar 3 ESG disclosures requires information on physical risks of banks' clients for risk management purposes, this disclosure is required (see Annex 5 for details).
- BC135. This disclosure requirement aligns with the disclosure of anticipated financial impacts from material physical risks outlined in ESRS standards Set 1. Guidance in paragraph 180 of the ED offers definitions and examples of climate change-related physical risks. Additionally, this disclosure was included in all the analysed questionnaires.

Disclosure BP 6 – Hazardous waste and radioactive waste ratio

- BC136. This disclosure corresponds to an SFDR PAI with additional guidance on nuclear waste, including an explanation of the disclosure of the radioactive waste ratio, to support the preparation of this disclosure is available in paragraphs 181 to 183 of the ED.

Disclosure BP 7 – Alignment with internationally recognized instruments

- BC137. This disclosure requirement is fully aligned with ESRS Set 1 as no further simplifications could be achieved on this SFDR PAI. Some EFRAG SRB members were concerned about the feasibility of BP 7, BP 8 and BP 9 for SMEs given the difficulty to understand these as they are based on international instruments such as the OECD, the United Nations Guiding Principles on Business and Human Rights and the ILO. The requirement is subject to consultation and guidance in paragraphs 184 to 186 of the ED clarifies which international instruments may be used as common reference and defines the meaning of a commitment to respect human rights in the workplace for an SME.

Disclosure BP 8 – Processes to monitor compliance and mechanisms to address violations

- BC138. This disclosure requirement is fully aligned to ESRS Set 1; only a minimum language simplification could be achieved. The guidance in paragraph 187 of the ED clarifies the content of this disclosure requirement providing some practical examples of mechanisms that an SME can adopt to address (human rights) violations.

Disclosure BP 9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles (including the principles and rights set out in the 8 fundamental conventions of the ILO Declaration and the International Bill of Human Rights)

BC139. This disclosure requirement is aligned with the SFDR PAI but has been simplified. The additional guidance, available in paragraph 188 of the ED, specifies that SMEs should report any violations of human rights during the reporting period if applicable.

Disclosure BP 10 – Work-life balance

BC140. This datapoint was included in the Business Partners module, even if not an SFDR or Benchmark Regulation datapoint, but subject to consultation as it was only in one of the analysed questionnaires.

BC141. Additional guidance to support the preparation of this disclosure is available in paragraphs 189 to 191 of the ED.

Disclosure BP 11 – Number of apprentices

BC142. This datapoint was included in the Business Partners module, even if not an SFDR or Benchmark Regulation datapoint or in Set 1, but subject to consultation as SMEs are an important provider of apprentices.

BC143. Additional guidance to support the preparation of this disclosure is available in paragraphs 192 to 193 of the ED.

Appendix A – Defined Terms

- 1 Concerning the Defined Terms, EFRAG Secretariat has introduced the terms that were not defined in the text of the VSME ED and where possible, i.e. compatibly with the need to simplify the language and increase understandability, the definitions have been aligned to the ones already present in ESRS Delegated Act Set 1. Some definitions, which are not defined in ESRS Set 1, have been introduced following explicit requests by EFRAG SR TEG and SRB members. This is explained in the third column “Aligned with ESRS Delegated Act Set 1” of the table below, which illustrates which definitions are fully aligned with Set 1 and which deviate from it.

Defined term	Definition	Aligned with ESRS Delegated Act Set 1
Actions	Actions refer to (i) actions and actions plans (including transition plans) that are undertaken to ensure that the undertaking delivers against targets set and through which the undertaking seeks to address material impacts, risks and opportunities; and (ii) decisions to support these with financial, human or technological resources.	Fully aligned
Affected communities	People or group(s) living or working in the same area that have been or may be affected by a reporting undertaking’s operations or through its upstream and downstream value chain. Affected communities can range from those living adjacent to the undertaking’s operations (local communities) to those living at a distance. Affected communities include actually and potentially affected indigenous peoples.	Fully aligned
Apprenticeships	Apprenticeships are understood as formal vocational education and training schemes that (a) combine learning in education or training institutions with substantial work-based learning in companies and other workplaces, (b) lead to nationally recognised qualifications, (c) are based on an agreement defining the rights and obligations of the apprentice, the employer and, where appropriate, the vocational education and training institution, and (d) with the apprentice being paid or otherwise compensation for the work-based component.	Fully aligned
Biodiversity	The variability among living organisms from all sources including, inter alia, terrestrial, freshwater, marine and other aquatic ecosystems and the ecological complexes of which they are part.	Fully aligned
Biodiversity-sensitive Area	Biodiversity-sensitive areas include: Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas (‘KBAs’), as well as other protected areas, as referred to in Appendix D of Annex II to Commission Delegated Regulation (EU) 2021/2139.	Fully aligned

Defined term	Definition	Aligned with ESRS Delegated Act Set 1
Business Conduct	<p>The following matters are collectively referred to as 'business conduct or business conduct matters':</p> <p>(a) business ethics and corporate culture, including anti-corruption and anti-bribery, the protection of whistleblowers, and animal welfare;</p> <p>(b) the management of relationships with suppliers, including payment practices, especially with regard to late payment to small and medium-sized undertakings.</p> <p>(c) activities and commitments of the undertaking related to exerting its political influence, including its lobbying activities.</p>	Fully aligned
Collective bargaining	<p>All negotiations which take place between an employer, a group of employers or one or more employers' organisations, on the one hand, and one or more trade unions or, in their absence, the representatives of the workers duly elected and authorised by them in accordance with national laws and regulations, on the other, for: i) determining working conditions and terms of employment; and/or ii) regulating relations between employers and workers; and/or regulating relations between employers or their organisations and a workers' organisation or workers' organisations.</p>	Fully aligned
Corruption	<p>Abuse of entrusted power for private gain, which can be instigated by individuals or organisations. It includes practices such as facilitation payments, fraud, extortion, collusion, and money laundering. It also includes an offer or receipt of any gift, loan, fee, reward, or other advantage to or from any person as an inducement to do something that is dishonest, illegal, or a breach of trust in the conduct of the undertaking's business. This can include cash or in-kind benefits, such as free goods, gifts, and holidays, or special personal services provided for the purpose of an improper advantage, or that can result in moral pressure to receive such an advantage.</p>	Fully aligned
Consumers	<p>Individuals who acquire, consume or use goods and services for personal use, either for themselves or for others, and not for resale, commercial or trade, business, craft or profession purposes.</p>	Fully aligned
Classified information	<p>EU classified information as defined in Council Decision of 23 September 2013 on the security rules for protecting EU classified information (2013/488/EU) or classified by one of the Member States and marked as per Appendix B of that Council decision.</p>	Aligned with Set 1, but second paragraph added to further clarify the definition

Defined term	Definition	Aligned with ESRS Delegated Act Set 1
	EU classified information means any information designated by a EU security classification, of which the unauthorised disclosure could cause varying degrees of prejudice to the interests of the European Union or of one or more of the Member States. Classified information may be classified according to four levels: top secret, secret, confidential, restricted (based on the definition from the Council Decision).	
Circular economy principles	The European circular economy principles are usability; reusability; repairability; disassembly; remanufacturing or refurbishment; recycling; recirculation by the biological cycle; other potential optimisation of product and material use.	Fully aligned
Climate-change adaptation	The process of adjustment to actual and expected climate change and its impacts.	Fully aligned
Climate-related physical risks	Risks resulting from climate change that can be event-driven (acute) or from longer-term shifts (chronic) in climate patterns. Acute physical risks arise from particular hazards, especially weather-related events such as storms, floods, fires or heatwaves. Chronic physical risks arise from longer-term changes in the climate, such as temperature changes, and their effects on rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity.	Fully aligned
Direct GHG emissions (Scope 1)	Direct GHG emissions from sources that are owned or controlled by the undertaking.	Fully aligned
Employee	An individual who is in an employment relationship with the undertaking according to national law or practice.	Fully aligned
End-users	Individuals who ultimately use or are intended to ultimately use a particular product or service.	Fully aligned
Family related leave	<p>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 Standard, these concepts are defined as:</p> <p>(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);</p> <p>(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;</p>	Fully aligned

Defined term	Definition	Aligned with ESRS Delegated Act Set 1
	<p>(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;</p> <p>(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.</p>	
Grievance mechanism	<p>Any routinized, state-based or non-state-based, judicial or non-judicial processes through which stakeholders can raise grievances and seek remedy. Examples of state-based judicial and non-judicial grievance mechanisms include courts, labour tribunals, national human rights institutions, National Contact Points under the OECD Guidelines for Multinational Enterprises, ombudsperson offices, consumer protection agencies, regulatory oversight bodies, and government-run complaints offices. Non-state-based grievance mechanisms include those administered by the undertaking, either alone or together with stakeholders, such as operational-level grievance mechanisms and collective bargaining, including the mechanisms established by collective bargaining. They also include mechanisms administered by industry associations, international organisations, civil society organisations, or multi-stakeholder groups. Operational-level grievance mechanisms are administered by the organisation either alone or in collaboration with other parties and are directly accessible by the organisation's stakeholders. They allow for grievances to be identified and addressed early and directly, thereby preventing both harm and grievances from escalating. They also provide important feedback on the effectiveness of the organisation's due diligence from those who are directly affected. According to UN Guiding Principle 31, effective grievance mechanisms are legitimate, accessible, predictable, equitable, transparent, rights-compatible, and a source of continuous learning. In addition to these criteria, effective operational-level grievance mechanisms are also based on engagement and dialogue. It can be more difficult for the organisation to assess the effectiveness of grievance mechanisms that it participates in compared to those it has established itself.</p>	Fully aligned
Greenhouse Gases (GHG)	<p>For the purposes of this Standard, GHGs are the six gases listed in the Kyoto Protocol: carbon dioxide (CO₂); methane (CH₄); nitrous oxide (N₂O); Nitrogen trifluoride (NF₃); hydrofluorocarbons (HFCs); perfluorocarbons (PFCs); and sulphur hexafluoride (SF₆).</p>	Fully aligned

Defined term	Definition	Aligned with ESRS Delegated Act Set 1
Gross emissions	Gross emissions are total emissions before deductions for carbon removals and without any adjustments related to carbon credits or avoided emissions.	Not aligned, but inserted following a request from an EFRAG SRB member
Governance	The governance is the system of rules, practices and processes by which a company are directed and controlled.	Not aligned, but inserted following a request from an EFRAG SRB member
Hazardous waste	Waste which displays one or more of the hazardous properties listed in Annex III of Directive 2008/98/EC of the European Parliament and of the Council ¹⁷ on waste.	Fully aligned
Incident	A legal action or complaint registered with the undertaking or competent authorities through a formal process, or an instance of non-compliance identified by the undertaking through established procedures. Established procedures to identify instances of non-compliance can include management system audits, formal monitoring programs, or grievance mechanisms	Fully aligned
Indirect GHG emissions (Scope 2)	Indirect emissions are a consequence of the operations of the undertaking but occur at sources owned or controlled by another company. Scope 2 GHG emissions are indirect emissions from the generation of purchased or acquired electricity, steam and heat, or cooling consumed by the undertaking.	Fully aligned
Land-use change	The human use of a specific area for a certain purpose (such as residential; agriculture; recreation; industrial, etc.). Influenced by land cover (grass, asphalt, trees, bare ground, water, etc). Land-use change refers to a change in the use or management of land by humans, which may lead to a change in land cover.	Simplified version (land cover made explicit)
Nature-oriented area	<p>A “nature-oriented area” is an area dedicated primarily to nature preservation or restoration. They can be located on-site and include elements like roof, façade, water drainages designed, to promote biodiversity. Nature-oriented areas can also be located outside the organisation site provided that the area is owned or (co-)managed by the organisation and is primarily dedicated to promoting biodiversity.</p> <p>(Adapted from: Source: https://eurlex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009R1221-20230712)</p>	Not present in Set 1 but requested by an SR TEG member

Defined term	Definition	Aligned with ESRS Delegated Act Set 1
Own workforce/own workers	Employees who are in an employment relationship with the undertaking ('employees') and non-employees who are either individual contractors supplying labour to the undertaking ('self-employed people') or people provided by undertakings primarily engaged in 'employment activities' (NACE Code N78).	Fully aligned
Pay	The ordinary basic or minimum wage or salary and any other remuneration, whether in cash or in kind which the worker receives directly or indirectly ('complementary or variable components'), in respect of his/her employment from his/her employer. 'Pay level' means gross annual pay and the corresponding gross hourly pay. 'Median pay level' means the pay of the employee that would have half of the employees earn more and half less than they do	Fully aligned
Policy	<p>A set or framework of general objectives and management principles that the undertaking uses for decision-making. A policy implements the undertaking's strategy or management decisions related to a material sustainability matter. Each policy is under the responsibility of defined person(s), specifies its perimeter of application, and includes one or more objectives (linked when applicable to measurable targets). A policy is implemented through actions or action plans.</p> <p>For example, 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.</p> <p>If the undertaking has not yet formalised a policy but has implemented actions or defined targets through which the undertaking seeks to address material sustainability topics and subtopics, it may disclose them.</p>	Fully aligned
Recordable work-related injury or ill health	Work-related injury or ill health that results in any of the following: death, days away from work, restricted work or transfer to another job, medical treatment beyond first aid, or loss of consciousness; or significant injury or ill health diagnosed by a physician or other licensed healthcare professional, even if it does not result in death, days away from work, restricted work or job transfer, medical treatment beyond first aid, or loss of consciousness. Recordable means diagnosed by a physician or other licensed health care professionals. Injuries that do not require medical treatment beyond first aid are generally not recordable.	Fully aligned
Recycling	Any recovery operation by which waste materials are reprocessed into products, materials or substances	Fully aligned

Defined term	Definition	Aligned with ESRS Delegated Act Set 1
	whether for the original or other purposes. It includes the reprocessing of organic material but does not include energy recovery and the reprocessing into materials that are to be used as fuels or for backfilling operations	
Renewable Energy	Energy from renewable non-fossil sources, namely wind, solar (solar thermal and solar photovoltaic) and geothermal energy, ambient energy, tide, wave and other ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas, and biogas ¹² .	Fully aligned
Sealed area	A sealed area means any area where the original soil has been covered (such as roads) making it impermeable. This non-permeability can create environmental impacts. (Source: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009R1221-20230712)	Not present in Set 1, but requested by an SR TEG member
Sensitive information	Sensitive information as defined in Regulation (EU) 2021/697 of the European Parliament and of the Council of 29 April 2021 establishing the European Defence Fund. The definition provided in the same Council of 29 April 2021: Sensitive information means information and data, including classified information, that is to be protected from unauthorised access or disclosure because of obligations laid down in Union or national law or in order to safeguard the privacy or security of a natural or legal person.	Aligned with Set 1, but second paragraph added to further clarify the definition
Targets	Measurable, outcome-oriented and time-bound goals that the SME aims to achieve in relation to material sustainability topics and subtopics. They may be set voluntarily by the SME or derive from legal requirements on the undertaking.	Fully aligned
Training	Initiatives put in place by the undertaking aimed at the maintenance and/or improvement of skills and knowledge of its own workers. It can include different methodologies, such as on-site training, and online training.	Fully aligned
Value Chain	The full range of activities, resources and relationships related to the undertaking's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships the undertaking uses	Aligned – deleted 'ESRS use the term "value chain" in the singular, although it is recognised that

¹² Article 2(1) 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 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 (OJ L 328, 21.12.2018, p. 82).

Defined term	Definition	Aligned with ESRS Delegated Act Set 1
	and relies on to create its products or services from conception to delivery, consumption and end-of- life. Relevant activities, resources and relationships include: a) those in the undertaking's own operations, such as human resources; b) those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and c) the financing, geographical, geopolitical and regulatory environments in which the undertaking operates. Value chain includes actors upstream and downstream from the undertaking. Actors upstream from the undertaking (e.g., suppliers) provide products or services that are used in the development of the undertaking's products or services. Entities downstream from the undertaking (e.g., distributors, customers) receive products or services from the undertaking.	undertakings may have multiple value chains'
Wage	Gross wage, excluding variable components such as overtime and incentive pay, and excluding allowances unless they are guaranteed	Fully aligned
Water consumption	The amount of water drawn into the boundaries of the undertaking (or facility) and not discharged back to the water environment or a third party over the course of the reporting period.	Fully aligned
Water withdrawal	The sum of all water drawn into the boundaries of the undertaking from all sources for any use over the course of the reporting period.	Fully aligned
Work-life balance	Satisfactory state of equilibrium between an individual's work and private life. Work-life balance in a broader sense encompasses not only the balance between work and private life given family or care responsibilities, but also time allocation between time spent at work and in private life beyond family responsibilities.	Fully aligned
Worker in the value chain	An individual performing work in the value chain of the undertaking, regardless of the existence or nature of any contractual relationship with the undertaking. In the ESRS, the scope of workers in the value chain include all workers in the undertaking's upstream and downstream value chain who are or can be materially impacted by the undertaking. This includes impacts that are connected to the undertaking's own operations, and value chain, including through its products or services, as well as through its business relationships. This includes all workers who are not in the scope of 'Own Workforce' ('Own Workforce' includes people who are in an employment relationship with the undertaking ('employees') and	Fully aligned

Defined term	Definition	Aligned with ESRS Delegated Act Set 1
	non-employees who are either individual contractors supplying labour to the undertaking ('self-employed people') or people provided by undertakings primarily engaged in employment activities. (NACE Code N78)	

Annex 1: List of public meetings on VSME

- [EFRAG SR TEG Meeting 17 November 2022 – EFRAG](#) on the workstreams on SMEs.
- [EFRAG SRB Meeting 14 December 2022 - EFRAG](#) on SMEs standards approach and methodology.
- [EFRAG SRB Meeting 7 February 2023 - EFRAG](#) on the building blocks.
- [EFRAG SR TEG Meeting 19 June 2023 - EFRAG](#) on building blocks.
- [EFRAG SRB Meeting 28 June 2023 - EFRAG](#) on the role of VSME, entities in scope, building blocks approach and joint consultation of LSME and VSME
- [EFRAG SR TEG Meeting 13 July 2023 – EFRAG](#) on LSME and VSME.
- [EFRAG SRB Meeting 13 September 2023 – EFRAG](#) on LSME and VSME.
- [EFRAG SR TEG Meeting 20 September 2023 – EFRAG](#) on the feedback from the internal consultation on VSME V1.1, focus on cross cutting and Environment.
- [EFRAG SRB Meeting 22 September 2023 – EFRAG](#) on verbal update on SR TEG discussions.
- [EFRAG SR TEG Meeting 29 September 2023 – EFRAG](#) on the feedback from the internal consultation on VSME V1.1, focus on Social and Governance metrics.
- [EFRAG SR TEG Meeting 2 October 2023 – EFRAG](#) on the simplified language approach to VSME cross cutting section (V2).
- [EFRAG SRB Meeting 24 October 2023 – EFRAG](#) feedback on the simplified language approach to VSME (V3).
- [EFRAG SR TEG Meeting 26 October 2023 – EFRAG](#) detailed feedback and last red flags on VSME (V3).
- [EFRAG SR TEG Meeting 8 November 2023 – EFRAG](#) on VSME ED approval.
- [EFRAG SRB Meeting 29 November 2023 – EFRAG](#) on VSME ED approval.

Annex 2: List of internal meetings on VSME

- 1st EWG meeting (19 December 2022): SMEs workstream and building blocks approach, LSME and VSME approach and prioritization of work.
- SR TEG (19 January 2023): discussion on VSME, approach taken by ex PTF Cluster 8 and the C8 proposal on voluntary standard for SMEs.
- 2nd EWG meeting (19 January 2023): LSME and VSME.
- SRB meeting (27 January 2023) on approach to LSME and VSME as two separate standards.
- 3rd EWG meeting (9 February 2023): discussion on LSME and VSME Communities questionnaires and LSME working papers.
- 4th EWG meeting (8 March 2023): Discussion on VSME Community feedback and LSME working papers.
- European Issuers Smaller issuers committee (9 May 2023).
- EFRAG SR TEG Meeting (5 September 2023): EFRAG on Vienna Initiative Questionnaire Alignment with VSME V1.1.
- 5th EWG meeting (27 October 2023): discussion on VSME V3.

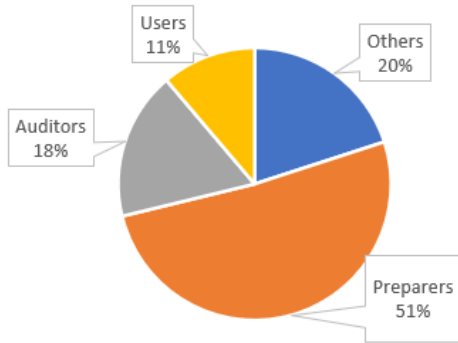
Annex 3: List of outreach meetings

- VSME Community workshop internal + final public session (31 January 2023): presentation of the outcome of the questionnaire sent to the VSME Community members and additional questions regarding VSME.
- Meeting with Vienna Initiative (30 August 2023): Gap Analysis between VSME V1.1 and Vienna Initiative Questionnaire
- First Bank workshop (1 September 2023): Feedback on EFRAG VSME V.2
- SME UNITED and EFRAG Secretariat workshop (4 September 2023): Feedback from EFRAG VSME V.2
- 2nd VSME Community workshop internal + final public session (7 September 2023): Feedback on EFRAG VSME V.2
- FBF Questionnaire and EFRAG Secretariat (20 September 2023) on alignment with VSME V.2
- CSR Europe Workshop with EFRAG Secretariat (5 October 2023) on VSME V.2
- Business Europe meeting with EFRAG Secretariat (13 October 2023) on VSME V.2
- Second SME UNITED and EFRAG Secretariat workshop (20 October 2023) on feedback on VSME V3.
- Second Bank Workshop (23 October 2023) on feedback and alignment on VSME V3.
- CPME (French Members of SMEunited) (25 October 2023) on feedback on VSME V3.

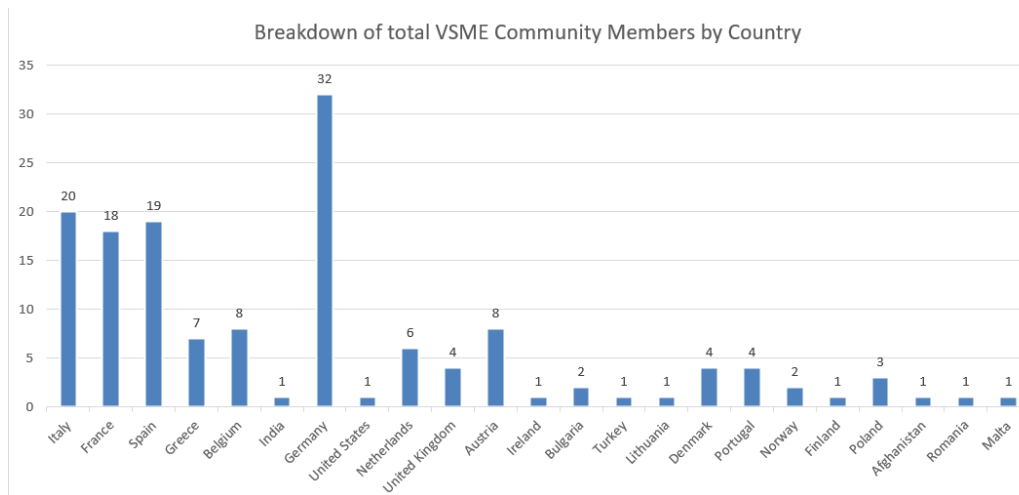
Annex 4: Breakdown of VSME community members

The EFRAG VSME community advises EFRAG SR TEG and EFRAG SRB and consists of 146 members. These have been broken down by category: auditors, preparers, users and others. The graph below provides a graphical representation of the percentages that these categories represent within the total number of community members.

Breakdown of Total VSME Community members (by group)



The graph below illustrates the breakdown by country of total VSME community members.



Annex 5: Comparison of SFDR, Benchmark Regulation and Pillar 3 datapoints in VSME ED and ESRs Set 1

VSME ED Datapoints	ESRS Set 1 Datapoint	Explanation
Basic Module		
<p>B 3 – Energy and greenhouse gas emissions (SFDR and Benchmark)</p> <p>The undertaking shall report its impacts on climate, by disclosing its energy usage and greenhouse gas emissions, as requested in the following paragraphs.</p> <p>The undertaking shall disclose its total energy consumption in MWh, with a breakdown between:</p> <ul style="list-style-type: none"> a) fossil fuels; and b) electricity, as expressed in utility billings, along with a breakdown between renewable and non-renewable sources, if available. <p>The undertaking shall disclose its estimated gross greenhouse gas (GHG) emissions in tons of CO₂ equivalents (tCO₂eq), considering the principles, requirements and guidance of the GHG Protocol Corporate Standard, including:</p> <ul style="list-style-type: none"> a) The scope 1 GHG emissions in tCO₂eq (from owned or controlled sources); and b) The location-based scope 2 emissions in tCO₂eq (emissions from the generation of purchased energy). 	<p>ESRS E1-5</p> <p>35. The undertaking shall provide information on its energy consumption and mix.</p> <p>37. The disclosure required by paragraph 35 shall include the total energy consumption in MWh related to own operations disaggregated by:</p> <ul style="list-style-type: none"> (a) total energy consumption from fossil sources; 	<p>SAME DEFINITION AS SET 1</p>
	<p>ESRS E1-6</p> <p>44. The undertaking shall disclose in metric tonnes of CO₂eq its:</p> <ul style="list-style-type: none"> (a) gross Scope 1 GHG emissions; (b) gross Scope 2 GHG emissions; (c) gross Scope 3 GHG emissions; and (d) total GHG emissions. 	<p>Partially aligned due to the explicit removal of Scope 3 emissions in line with VSME simplified approach.</p>
<p>B 4 – Pollution of air, water and soil (SFDR)</p> <p>The undertaking shall disclose, if applicable, the pollutants (with respective amounts) it emits to air, water and soil in its own operations, that it is required to report by law to competent authorities (e.g. under the</p>	<p>ESRS E2-4</p> <p>The undertaking shall disclose the amounts of:</p> <ul style="list-style-type: none"> (a) each pollutant listed in Annex II of Regulation (EC) No 166/2006 of the European Parliament and of the Council (European Pollutant Release 	<p>SAME DEFINITION AS SET 1</p>

VSME ED Datapoints	ESRS Set 1 Datapoint	Explanation
Industrial Emissions Directive and the European Pollutant Release and Transfer Register) or that it already reports according to an Environmental Management System such as EMAS. If this information is already publicly available, the undertaking may alternatively provide a reference to the document where it is reported, for example, through a hyperlink.	and Transfer Register “E-PRTR Regulation”) emitted to air, water and soil, with the exception of emissions of GHGs which are disclosed in accordance with ESRS E1 Climate Change.	
<p>B 5 – Biodiversity (SFDR)</p> <p>The undertaking shall disclose the number and area (in hectares) of sites that it owns, has leased, or manages, in or near biodiversity sensitive areas.</p>	<p>ESRS SBM 3</p> <p>The undertaking shall disclose:</p> <p>a) a list of material sites in its own operations, including sites under its operational control, based on the results of paragraph 17(a). The undertaking shall disclose these locations by:</p> <p style="padding-left: 40px;">i. specifying the activities negatively affecting biodiversity sensitive areas;</p>	Partially aligned with SET 1
<p>B 9 – Workforce – Health and safety (SFDR)</p> <p>The undertaking shall disclose:</p> <p>a) the number and rate of recordable work-related accidents.</p> <p>b) the number of fatalities as a result of work-related injuries and work-related ill health;</p>	<p>ESRS S1-14</p> <p>The disclosure required by paragraph 86 shall include the following information, where applicable broken down between employees and non-employees in the undertaking’s own workforce:</p> <p>b) the number of fatalities as a result of work-related injuries and work-related ill health;</p> <p>c) the number and rate of recordable work-related accidents;</p>	SAME DEFINITION AS SET 1
<p>B 10 – Workforce – Remuneration, collective bargaining, and training (SFDR)</p> <p>The undertaking shall disclose:</p> <p>c) the percentage gap in pay between its female and male employees. The undertaking may omit this disclosure when its headcount is below 150 employees</p>	<p>ESRS S1-16</p> <p>The disclosure required by paragraph 95 shall include:</p> <p>(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 employees;</p>	SAME DEFINITION AS SET 1

VSME ED Datapoints	ESRS Set 1 Datapoint	Explanation
<p>B 12 – Convictions and fines for corruption and bribery (Benchmark)</p> <p>In case of convictions and fines in the reporting period, the undertaking shall disclose the number of convictions and the amount of fines incurred for the violation of anti-corruption and anti-bribery laws.</p>	<p>ESRS G1-4</p> <p>The undertaking shall disclose: (a) the number of convictions and the amount of fines for violation of anti-corruption and anti-bribery laws</p>	<p>SAME DEFINITION AS SET 1</p>
Narrative – Policies, Actions and Targets (PAT) Module		
<p>N 3 - Management of material sustainability matters (SFDR)</p> <p>Where material, the undertaking shall disclose whether it has the following in place to support the prevention of incidents of corruption or bribery:</p> <p style="padding-left: 40px;">c) any actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery.</p>	<p>ESRS G1-4</p> <p>The undertaking shall disclose:</p> <p>(b) any actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery .</p>	<p>SAME DEFINITION AS SET 1</p>
Business Partners Module		
<p>BP 1 – Revenues from certain sectors (SFDR Table 1)</p> <p>The undertaking shall include a statement indicating if it is active in one or more of the following sectors while disclosing its related revenues:</p> <p style="padding-left: 40px;">a) controversial weapons such as anti-personnel mines, cluster munitions, chemical weapons and biological weapons; and / or</p> <p style="padding-left: 40px;">b) the cultivation and production of tobacco; and/or</p> <p style="padding-left: 40px;">c) fossil fuel (coal, oil and gas) sector (i.e., the undertaking derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution,</p>	<p>ESRS 2 par 40:</p> <p>Where applicable, a statement indicating, together with the related revenues, that the undertaking is active in:</p> <p style="padding-left: 40px;">i. the fossil fuel (coal, oil and gas) sector, (i.e., 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 Council¹⁷), 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</p>	<p>The Taxonomy part of this Disclosure was explicitly excluded in the methodological approach from the Business Partners Module of VSME.</p>

VSME ED Datapoints	ESRS Set 1 Datapoint	Explanation
<p>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 (17), including a disaggregation of revenues derived from coal, from oil and from gas); and/or</p> <p>d) chemicals production, as its activities fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006.</p>	<p>8(7)(a) of Commission Delegated Regulation 2021/217818;</p> <ul style="list-style-type: none"> ii. chemicals production, i.e., its activities fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006; iii. controversial weapons(anti-personnel mines, cluster munitions, chemical weapons and biological weapons); and/or iv. the cultivation and production of tobacco 	
<p>BP 2 – Gender diversity ratio in governance body (SFDR Table 1 and Benchmark)</p> <p>If the undertaking has a governance body in place, the undertaking shall disclose the related gender diversity ratio.</p>	<p>GOV 1 par 21. The undertaking shall disclose the following information about the composition and diversity of the members of the undertaking’s administrative, management and supervisory bodies:</p> <p>(d) percentage by gender and other aspects of diversity that the undertaking considers. The board's gender diversity shall be calculated as an average ratio of female to male board members.</p>	<p>Simplification in line with VSME approach.</p>
<p>BP 3 – GHG emissions reduction target (Benchmark)</p> <p>If the undertaking has set GHG emission reduction targets, it shall provide its GHG emission reduction targets for (a) scope 1 emissions; and (b) scope 2 emissions.</p> <p>This disclosure includes Scope 3 emissions, only when they are disclosed under paragraph 71 above and the undertaking has set GHG reduction targets for Scope 3 emissions.</p>	<p>E1 PAR 34 (b): GHG emission reduction targets shall be disclosed 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, the share related to each respective GHG emission Scope and which GHGs are covered. The undertaking shall explain how the consistency of these targets with its GHG inventory boundaries is ensured (as required by Disclosure Requirement E1-6). The GHG emission reduction targets shall be gross targets, meaning that the undertaking shall not include GHG removals, carbon credits or avoided emissions as a means of achieving the GHG emission reduction targets;</p>	<p>The part of this datapoint that in ESRS Delegated Act July 2023 for large undertakings also includes Scope 3 GHG emission reduction targets has been included as part of the entity specific consideration concerning scope 3.</p>

VSME ED Datapoints	ESRS Set 1 Datapoint	Explanation
<p>BP 4 – Transition plan for climate change mitigation (Benchmark)</p> <p>The undertaking shall provide information about its transition plan for climate mitigation with an explanation of how GHG emission reduction targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement. This disclosure is applicable only if the undertaking has adopted such a transition plan.</p>	<p>E1 par 14: 14. The undertaking shall disclose its transition plan for climate change mitigation.</p> <p>16. The information required by paragraph 14 shall include:</p> <p>by reference to 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;</p>	<p>SAME DEFINITION AS SET 1</p>
<p>BP 5 – Physical Risks from climate change (EBA Pillar 3 and Benchmark)</p> <p>The undertaking shall disclose the anticipated financial effects that physical risks from climate change may have on the company. In particular:</p> <p>a) the monetary amount and the percentage of the SME's total assets that can be subjected to material physical risks over the short, the medium and the long-term, before considering climate change adaptation actions disaggregated by acute and chronic physical risk;</p> <p>b) the proportion of assets at material physical risk addressed by the climate change adaptation actions;</p> <p>c) the location of the significant assets affected by material physical risks;</p> <p>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;</p> <p>e) the breakdown of the SME's carrying value of its real estate assets, by energy efficiency classes.</p>	<p>E1 par. 64 (a), 66 and 67 c):</p> <p>64. The undertaking shall disclose its:</p> <p>(a) anticipated financial effects from material physical risks;</p> <p>(b) anticipated financial effects from material transition risks;</p> <p>66. The disclosure of anticipated financial effects from material physical risks required by paragraph 64 (a) shall include:</p> <p>(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 risk;</p> <p>(b) the proportion of assets at material physical risk addressed by the climate change adaptation actions;</p> <p>(c) the location of significant assets at material physical risk; and</p> <p>(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.</p> <p>67. The disclosure of anticipated financial effects from material transition risks required by paragraph 64 (b) shall include:</p> <p>(c) a breakdown of the carrying value of the undertaking's real estate assets by energy efficiency classes;</p>	<p>The part of this datapoint that in ESRS Delegated Act July 2023 for large undertakings also includes anticipated financial effects from material transition risks has been deleted in line with the simplification applied to VSME as part of its methodology.</p>

VSME ED Datapoints	ESRS Set 1 Datapoint	Explanation
<p>BP 6 – Hazardous waste and radioactive waste ratio (SFDR Table 1)</p> <p>If the undertaking generates hazardous and/or radioactive waste, the undertaking shall disclose the total amount of hazardous waste and/or radioactive waste generated (radioactive waste is defined in Article 3(7) of Council Directive 2011/70/Euratom).</p>	<p>E5 par. 39:</p> <p>The undertaking shall also disclose the total amount of hazardous waste and radioactive waste generated by the undertaking, where radioactive waste is defined in Article 3(7) of Council Directive 2011/70/Euratom .</p>	<p>SAME DEFINITION AS SET 1</p>
<p>BP 7: Alignment with internationally recognized instruments (Benchmark)</p> <p>The undertaking shall disclose whether its policies with regard to its own workforce are aligned with relevant internationally recognized instruments, including the UN Guiding Principles on Business and Human Rights.</p>	<p>S1, par. 21:</p> <p>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.</p>	<p>SAME DEFINITION AS SET 1</p> <p>Missing “and how”</p>
<p>BP 8: Processes to monitor compliance and mechanisms to address violations (SFDR Table 1)</p> <p>The undertaking shall disclose whether it has processes in place to monitor compliance with the OECD Guidelines for Multinational Enterprises, and with the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the International Bill of Human Rights and the eight fundamental conventions identified in the ILO Declaration or grievance/complaints handling mechanisms to address violations of the above standards with regard to its own workforce.</p>	<p>S1, par. 20:</p> <p>The undertaking shall describe its human rights policy commitments that are relevant to its own workforce, including 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.</p>	<p>SAME DEFINITION AS SET 1</p>
<p>BP 9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles (SFDR Table 1 and Benchmark)</p> <p>The undertaking shall disclose whether there have been any violations of the UN Guiding</p>	<p>S1 par. 104 a) : The undertaking shall disclose the following information regarding identified cases of severe human rights incidents (e.g., forced labour, human trafficking or child labour): (a) the number of severe human rights incidents connected to the undertaking’s workforce in the reporting period, including an indication of how</p>	<p>Aligned with SFDR PAI text</p>

VSME ED Datapoints	ESRS Set 1 Datapoint	Explanation
Principles on Business and Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work or the OECD Guidelines for Multinational Enterprises with regard to its own workforce during the reporting year.	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 this.	
<p>BP 10 – Work-life balance</p> <p>The SME shall disclose the percentage of its employees:</p> <p>(a) who are entitled to take family-related leave, with a breakdown by gender; and</p> <p>(b) who took family-related leave, with a breakdown by gender.</p> <p>Family-related leave includes maternity, paternity, parental, and carers' leave.</p>	<p>Disclosure Requirement S1 -15 – Work-life balance metrics</p> <p>91. The undertaking shall disclose the extent to which employees are entitled to and make use of family-related leave.</p> <p>93. The disclosure required by paragraph 91 shall include:</p> <p>(a) the percentage of employees entitled to take family-related leave; and</p> <p>(b) the percentage of entitled employees that took family-related leave, and a breakdown by gender.</p>	SAME AS SET 1
<p>BP 11 – Number of apprentices</p> <p>If applicable, the undertaking shall disclose the number of apprentices in the reporting period.</p>	<p>This would be entity specific for Set 1, i.e. no standardised disclosure requirement in Set 1.</p>	<p>This disclosure does not come from SFDR or Benchmark Regulation but VSMEs are an important provider of apprentices. Apprentices' definition and regulation vary among EU Member States. The information required shall not affect their status pursuant to applicable law.</p>

Annex 6: Trickle-down and value chain cap

Value chain cap – legal concept

Under the provisions of the Corporate Sustainability Responsibility Directive (CSRD), the ESRS Set 1 for large undertakings shall not specify disclosures that would require reporting undertakings to obtain information from small and medium-sized undertakings (SMEs) in their value chain that exceeds the information to be disclosed pursuant to the LSME ESRS (art 29b 4).

EFRAG refers to this as the ‘value chain cap’, i.e., the disclosures in LSME ESRS determine what is the maximum detail of information that large undertakings can collect from SMEs in their value chain, in order to prepare their ESRS sustainability statement.

While the vast majority of the SMEs in the value chain of the undertakings in the scope of ESRS Set 1 are not in scope of LSME, from a legal perspective the standard setting process cannot deviate from the limitation introduced by the legislators in the CSRD (i.e., LSME ESRS, and not Voluntary SME standard-VSME, is setting the legal cap).

How has the value chain cap been implemented in LSME ED?

LSME has been developed pursuing a systematic simplification of the content of ESRS Set 1, while achieving an acceptable trade-off between proportionality and investors’ needs¹³. This reflects the fact that the CSRD indicates a subset of the reporting objectives of the ESRS Set 1, as minimum content for this standard.

In this context, the content of the ESRS Set 1 has been deeply scrutinised during the drafting of LSME to achieve the maximum level of simplification, while providing a reporting that is able to meet the needs of LSME investors. In a second step, the resulting potential losses of information in the value chain dimension of Set 1 preparers have been considered.

No datapoints in LSME has been added solely with the purpose of preserving the value chain information of Set 1 reporters, as all the datapoints covering the value chain (as illustrated below) are needed to meet the investors’ needs.

How does this relate to VSME ED?

The Q&A issued by the European Commission accompanying the ESRS Delegated Act indicates that some non-listed SMEs, which are not subject to any sustainability reporting requirements under the Accounting Directive (Directive 2013/34/EU) as amended by CSRD may nevertheless receive requests for sustainability information from customers, banks, investors or other stakeholders. *EFRAG is therefore also developing simpler, voluntary standard for use by non-listed SMEs (VSME). VSME intends to enable non-listed SMEs to respond to request for sustainability information in an efficient and proportionate manner, and so facilitate their participation in the transition to a sustainable economy.*

In addition, the EC SME Relief Package of September 2023 refers to *VSME as a measure to support SMEs in accessing sustainable finance.*

As a result of this mandate, the objective of VSME ED is to provide non-listed micro-, small- and medium-sized undertakings (SMEs) with a simple reporting tool to start their sustainability journey and monitor their sustainability performance and to respond to the growing request of sustainability data from business partners (which includes financial institutions) that are triggered either by ESRS Set 1 reporting obligations or to manage their sustainability risks and pledges in the lending and investment portfolios (financial institutions) or in the supply chain (other business partners).

The ambition is for VSME to become a common point of reference for lenders, investors and corporate counterparts in value chain when they define their ESG data requests to SMEs. Concretely this means that, based on market acceptance, VSME is expected to de facto limit

¹³ Recital 21 of the CSRD: LSME is expected to support the availability of sustainability information by listed SMEs and in this way avoid discrimination against such entities on the part of financial market participants. In addition, LSME is expected to ensure the availability of SFDR PAI and Taxonomy disclosures.

current multiple ESG data requests that would represent an important burden for SMEs, by replacing the various, multiple and uncoordinated ESG questionnaires.

How value chain datapoints of ESRS Set 1 are addressed in LSME and VSME ED?

During the development of the two SME EDs extensive discussions have taken place regarding the determination of the value chain cap and the need for proportionality, under an appropriate compromise between the expectations expressed at one and the same time by SME preparers and by users of SME information (large undertakings, financial institutions, other SMEs). Part of the discussions focused upon the so-called « trickle down » effect which crystallises a concern related to ESRS Set 1 reporting entities requesting excessive information from SMEs in their value chain.

The table below provides a detailed analysis of datapoints in ESRS Set1 that have a value chain dimension (see draft EFRAG IG -2 - Value Chain Implementation Guidance) with reference to the « trickle down » effect under two complementary perspectives:

Perspective 1: focusing on the potential burden for SME that is due to data requests due to ESRS reporting from ESRS Set 1 preparers. This perspective looks at what are the corresponding datapoints in LSME (which establish the legal value chain cap) and in VSME (which has to play a role in limiting the burden to non-listed SMEs) and how proportionate they are. This perspective covers the trickle-down effect recognised and rationalised by the standards and takes account of the Set 1 provisions and guidance regarding the preparation of value chain related information (in particular in relation to the collection of data and the use of secondary data such as proxies, statistics and estimates).

Perspective 2: focusing on the correspondence between value chain datapoints in ESRS Set 1 and in ESRS LSME ED /VSME ED, this perspective looks at whether and to what extent there could be potential (additional) trickle-down effect on SMEs that would derive from data not covered in ESRS LSME ED and VSME ED (under one of the three modules for VSME).

As a reminder, the guiding principle in developing both standards has been to simplify as much as possible the content, while maintaining the datapoints that are necessary to meet the users' needs (i.e. the users of the LSME or VSME reports). It must also be borne in mind that both standards have been drafted under a sector-agnostic. Specific sectorial perspectives, as well as supply chain management policies or labels or data platforms developed by certain groups of undertakings (referred to below as « specific arrangements ») may result in additional data requests, which go beyond the scope of a VSME sector agnostic standard. These are due primarily to managerial needs and do not derive from ESRS Set 1 reporting obligations, in isolation from other considerations such as business or sustainability due diligence processes.

The table on the next page illustrates the specific users' needs that justify the respective datapoints in LSME and VSME¹⁴.

¹⁴ For financial market participants, an additional information need arises in relation to the obligations stemming from Article 8 Taxonomy Disclosure (Regulation 2020/852). Such disclosure is limited to own operations and does not extend to suppliers and value chain. Undertakings in scope of the CSRD are also obliged to prepare their own Article 8 Disclosure and will include it in their ESRS Sustainability statement (both for Set 1 and LSME preparers). The requirement to prepare such disclosure stems from Regulation 2020/852 and not from ESRS in isolation. Non-listed SMEs are excluded from the scope of the Regulation 2020/852. VSME does not include this disclosure, as on the basis of feedback received so far, this disclosure is too complex for a general (sector agnostic) data set. This will be covered by a specific question in the consultation.

Detailed explanation of the conclusions on the value chain cap for both EDs under both perspectives

Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME	Trickle-down assessment for VSME
<p>1.</p> <p>Strategy, business model and value chain (SBM-1)</p> <p>Material impacts and risks and their interaction with strategy and business model (SBM-3)</p> <p>Processes to identify and assess material impacts and risks (IRO-1)</p>	<p>Conclusion: no undue effect expected from ESRS reporting¹⁵</p> <ul style="list-style-type: none"> Perspective 1: since Set 1 preparers will generally use sectoral data instead of collecting direct data Perspective 2: since covered by LSME disclosures 	<p>Conclusion: Same as per LSME.</p>
	<p>Disclosures in LSME: SBM-1, SBM-3 and IRO-1¹⁶</p>	<p>Disclosures in VSME: Narrative Module</p> <ul style="list-style-type: none"> N 1 – Strategy: business model and sustainability related initiatives N-2 Disclosure N 2 – Material sustainability matters N-3 Management of material sustainability matters
	<p>Users' needs</p> <p>Eliminating the value chain dimension from LSME for simplification purposes was not incompatible with serving LSME investors' needs. Maintaining the value chain coverage here allows Set 1 preparers to request information from their suppliers, when:</p> <ul style="list-style-type: none"> - describing their value chain; - reporting its material impacts risks and opportunities in the value chain (SBM-3); and/or - running the materiality assessment and disclosing the process (IRO-1). <p>These three DRs are an essential element of the reporting, aligned with the definition of impacts (in CSRD, GRI and international instruments of due diligence), as well as with the users' needs (both users of ESRS Set 1 and LSME).</p>	<p>Users' needs</p> <p>These disclosures also cover the value chain. This reflects the need to align the definition of 'impacts' with that in ESRS Set 1 as this definition 1 also covers value chain. This then avoids additional data requests outside the VSME ED.</p>
	<p>Perspective 1</p> <p>The materiality assessment regarding on the upstream value chain may be validly conducted by large undertakings without direct</p>	<p>Perspective 1 /2</p> <p>Same as per LSME.</p>

¹⁵ The same is also true of SBM-1 requiring a description of the undertaking's value chain and reflected as a separate row of the value chain map in the [draft EFRAG IG 2 Value chain implementation guidance](#).(Draft EFRAG IG 2: VCIG)

¹⁶ This also includes the IRO-1 specification in Set 1's ESRS E4 *Biodiversity and ecosystems* as well as DR E4-1 in row 9 of the value chain map in the draft EFRAG IG 2: VCIG.

Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME	Trickle-down assessment for VSME
	<p>information from specific SME suppliers. Set 1 undertakings will typically conduct the assessment using average regional or sector data to characterise the areas of potential impacts and risks associated with their value chain. Therefore, these disclosures are not expected to result in significant trickle-down effect on SMEs separately from business or sustainability due diligence processes.</p> <p>Perspective 2 LSME includes these disclosures (with some simplifications). Therefore, SME applying LSME they will avoid additional requests.</p>	
<p>2. General approach to Policies, Actions and Targets (PAT)</p>	<p>Conclusion: no undue effect on SMEs expected from ESRS reporting Perspective 1: effects on SME may be due to specific arrangements, if any Perspective 2: since appropriate LSME disclosures</p>	<p>Conclusion: Same as for LSME</p>
	<p>Disclosures in LSME: section 3 PAT¹⁷</p>	<p>Disclosures in VSME: Narrative module (PAT) N 3 – Management of material sustainability matters</p>
	<p>Perspective 1 The undertaking’s reporting (both in Set 1 and LSME) shall include upstream and/or downstream value chain information to the extent that those policies and actions involve actors in the value chain. The collection of value chain data from SMEs is due primarily to business reasons and not to ESRS Set 1 reporting (if there are no PAT, no disclosure applies). In fact, the undertaking is expected to leverage information collected for business purposes (implementation of policies and actions, setting and monitoring targets). ESRS reporting may benefit from the value chain information collected for business reasons (i.e., report to the extent that value chain is covered in the PAT), but ESRS reporting is not the cause of the trickle-down or additional burden to SMEs. When the undertaking that prepares its sustainability statement under ESRS Set 1 and it has no PAT to report for a given material matter, it simply states this fact.</p> <p>Perspective 2</p>	<p>Perspective 1 Same as for LSME</p> <p>Perspective 2</p>

¹⁷ Reflected in rows 4 and 5 of the value chain map in the draft EFRAG IG 2: VCIG as well as E4-1 as reflected in row 9.

Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME	Trickle-down assessment for VSME
	<p>LSME has simplified requirements for PAT that pursue a reporting objective consistent with the one in Set 1, as the ones described above. Set 1 undertaking are expected to leverage specific arrangements, i.e. information that is collected for business purposes. Disclosure is only needed when PAT are in place (when they are not, the undertaking states this fact).</p>	<p>VSME has simplified requirements for PAT that pursue a reporting objective consistent with the one in Set 1, as the ones described above. Set 1 undertaking are expected to leverage specific arrangements, i.e. information that is collected for business purposes. No disclosure is required if the SME does not have PAT to report.</p>
<p>3. Transition plan for Climate (E1-1)¹⁸, Specifically paragraph 16 (b) of ESRS E1 requires to disclose the decarbonization levers and actions in the value chain.</p>	<p>Conclusion: no undue effect on SMEs expected from ESRS reporting</p> <ul style="list-style-type: none"> • Perspective 1: effects on SME may be due to specific arrangements, if any • Perspective 2: since appropriate LSME disclosures 	<p>Conclusion: As for LSME</p>
	<p>Disclosures in LSME: section 3 Actions – AR 6 and AR11</p>	<p>Disclosures in VSME: Business Partner Module BP 4 – Transition plan for climate change mitigation</p>
	<p>Users’ needs (looking at the users of the LSME report) Transition plan is one of the datapoints required by EU Regulations (Climate Law, Benchmark, EBA Pillar 3) and it is therefore needed for investors both for LSME and ESRS Set 1.</p>	<p>Users’ needs (looking at the users of the VSME report) This information is included in most business partner ESG questionnaires (lenders, investors, corporate clients). They need this information to establish their own transition plan for sustainability management purposes. ESRS do not require to have a transition plan in place but to disclose the plan if it exists..</p>
<p>Perspective 1 Set 1 preparers are expected to get information from its suppliers to manage its transition plan and define its actions and decarbonisation levers (when they exist). The information is expected to be collected for sustainability-management purposes when it involves its suppliers in the actions from its transition plan. Therefore, ESRS reporting of these disclosures is not expected to result in significant additional trickle-down effect on SMEs, in isolation from other considerations such as business or sustainability due diligence processes.</p>	<p>Perspective 1 Same as per LSME.</p>	

¹⁸ Included in row 9 of the value chain map in the draft EFRAG IG 2: VCIG.

Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME	Trickle-down assessment for VSME
	<p>Perspective 2 LSME has simplified requirements for transition plan and actions (decarbonisation levers), to be reported when the undertaking has specific projects in place.</p>	<p>Perspective 2 VSME has simplified requirements for transition plan, if applicable.</p>
<p>4. GHG emissions (E1-6) - Scope 3¹⁹</p>	<p>Conclusion: no undue effect on SMEs expected from ESRS reporting</p> <ul style="list-style-type: none"> • Perspective 1: since Set 1 preparers will generally use sectoral data instead of collecting direct data • Perspective 2: since covered by LSME disclosures 	<p>Conclusion: Same as for LSME</p>
	<p>Disclosures in LSME: E1-2 GHG emissions – Scope 3</p>	<p>Disclosures in VSME:</p> <ul style="list-style-type: none"> • Basic module – B3 – GHG emission Scope 1 and 2 • Business Partner module – Entity specific considerations GHG Scope 3
	<p>Users’ needs: Scope 3 is required by EU Regulations (SFRD), so it required in LSME.</p>	<p>Users’ needs: GHG Scope 3 is considered too complex for the basic module, but an entity-specific consideration has been included in BP module, depending on the sector of the SME. GHG scope 3 emission is not a requirement for VSME unless the undertaking decides considering the sector, to report under the BP module. In this case the preparation of the disclosure will take account of the materiality of Scope 3 GHG emissions and of the availability of sector proxies or estimates.</p>
<p>Perspective 1 Valid Scope 3 figures can be calculated using average emission factors (i.e. secondary data). ESRS Set 1 preparers that have Scope 3 GHG emission reduction targets (implying that they agree with the reductions by their suppliers) may collect direct information from suppliers to monitor progress on such targets in the context of their due diligence processes. In this case, they would have more precise information from suppliers and would not have to use proxies in their ESRS report. Therefore, the ability to ask direct</p>	<p>Perspective 1 Same as per LSME.</p>	

¹⁹ Included in row 8 of the value chain map in the draft EFRAG IG 2: VCIG.

Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME	Trickle-down assessment for VSME
	<p>information from suppliers in the context of target setting and monitoring can support more and better understanding of climate actions in the supply chain, but a valid calculation Scope 3 emissions can be achieved without it. Accordingly, there is no additional trickle-down effect due to reporting, in isolation from other considerations such as business or sustainability due diligence processes.</p> <p>Perspective 2 LSME requires disclosing Scope 3 emissions, when climate change is a material matter.</p>	<p>Perspective 2 No requirements in VSME, but entity-specific consideration depending on sectors and materiality.</p>
<p>5. GHG removals (E1-7)</p>	<p>Conclusion: no undue effect on SMEs expected from ESRS reporting</p> <ul style="list-style-type: none"> • Perspective 1: effects on SME may be due to specific arrangements, if any • Perspective 2: since appropriate LSME disclosures <p>Disclosures in LSME: GHG removals (E1-3)</p> <p>Perspective 1 Set 1 preparers shall report on GHG removals involving value chain actors, only when they have projects of GHG removals and decarbonisation levers that involve suppliers. As described above for PAT and transition plans, in this case direct supplier data is needed to manage the project and not for ESRS reporting. ESRS reporting will benefit from this but is not the cause of the trickle-down effect.</p> <p>Perspective 2 LSME requires disclosing GHG removals, when specific projects are in place.</p>	<p>Conclusion: Additional information (not for ESRS reporting but for the implementation of possible specific arrangements) may be needed beyond VSME but is too specific to be covered by VSME ED.</p> <p>Disclosures in VSME: Excluded in sector agnostic level due to the complexity. Sector considerations covered in the consultation.</p> <p>Perspective 1/2 When the SME has agreed to implement GHG removal actions as part of (or in agreement with) the GHG removal actions of a corporate client, the SME is expected to transfer information to its client in the context of the specific project. This would be additional to the VSME ED, as this type of information is too specific to be covered in a general (sector agnostic) standard like VSME (to be tested in the consultation).</p>
<p>6. Substances of concern and substances of very high concern</p>	<p>Conclusion: no undue effect on SMEs expected from ESRS reporting</p> <p>Perspective 1: effects on SME may be due to specific arrangements, if any</p> <p>Perspective 2: since appropriate LSME disclosures</p>	<p>Conclusion: As for GHG removals above.</p> <p>Perspective 1: same as LSME</p> <p>Perspective 2: information (not for ESRS reporting but for the implementation of possible specific arrangements) may be needed beyond VSME but is</p>

Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME	Trickle-down assessment for VSME
<p>(E2-5)²⁰ (as defined in the REACH regulation²¹)</p>		too specific to be covered by a sector agnostic general questionnaire
	<p>Disclosures in LSME: Substances of concern and substances of very high concern (E2-2)</p>	<p>Disclosures in VSME: Excluded Excluded at sector agnostic level in VSME due to the complexity. Sector considerations will be covered in the consultation.</p>
	<p>Users' needs: Refers to substances of concern and very high concern that are procured by the Set 1 (or LSME) preparers. This datapoint is needed by users when pollution and/or substances of concern/very high concern are a material matter to the reporter.</p>	
	<p>Perspective 1 This datapoint is limited to those substances that are procured by the undertaking (substances used by the suppliers are not disclosed). To comply with the REACH 2 regulation, large undertakings an LSME preparers must identify and manage the risks linked to substances manufactured and marketed in the EU. Similarly, monitoring of substances of high concern is part of the eco-design regulation. As such, preparers need this information to manage their business, not for reporting purposes. ESRS reporting may benefit from the information collected for business reasons but is not the cause.</p> <p>Perspective 2 LSME requires disclosing these when material.</p>	<p>Perspective 1/ Perspective 2 Corporate clients need the information on the sourced substances to manage their business, not for reporting purposes This has been excluded as too specific to be covered in a general (sector agnostic) standard like VSME.</p>
<p>7. Resource inflows (E5-4)</p>	<p>Conclusion: no undue effect on SMEs expected from ESRS reporting Perspective 1: effects on SME may be due to specific arrangements, if any Perspective 2: since appropriate LSME disclosures</p>	<p>Conclusion: no undue effect on SMEs expected from ESRS reporting Perspective 1: effects on SME may be due to specific arrangements, if any Perspective 2: Additional information (not for ESRS reporting but for the implementation of possible</p>

²⁰ Referred to as procured materials, row 7 of the value chain map in the draft EFRAG IG 2: VCIG. Resource outflows per E5-4 in row 9 of the value chain map given SME specificities and the qualitative nature of the requirement.

²¹ Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME	Trickle-down assessment for VSME
		specific arrangements) may be needed beyond VSME but is too specific to be covered by VSME ED.
	Disclosures in LSME: Resource inflows (E5-1)	Disclosures in VSME: Excluded at sector agnostic level in VSME due to the complexity. Sector considerations will be covered in the consultation. However, B 7 Resource use, circular economy, and waste management narrative disclosure is required in PAT module, limited to own operations (i.e. no value chain coverage) and is required for SMEs operating in manufacturing, construction and/or packaging process (quantitative disclosures of recycled content, packaging produced and respective rates; annual generation waste and breakdown by type(hazardous/non) and annual waste diverted to reuse or recycle. Sector considerations will be covered in the consultation.
	Users' needs: Qualitative disclosure has been maintained in LSME as it is needed by users, when resource inflows are a material sustainability matter.	
	Perspective 1 When resource inflows are a material matter, LSME requires inclusion of a description (qualitative only) of the resource inflows (i.e. products and materials, water and property, plant and equipment) impacts, risks and opportunities used in the undertaking's own operations and along its upstream value chain. This is a qualitative risk disclosure on impacts and dependencies on certain materials, which should also be in the scope of due diligence obligations (e.g. conflict minerals). However, when disclosing quantitative metrics of materials used in the production of the undertaking's products and services, this relates only to own operations (both in Set 1 and LSME). For undertakings where resource inflows are a material sustainability matter having a knowledge of the sustainability profile or their sourced material will	Perspective 1/2 For undertakings for which resource inflows are a material sustainability matter having a knowledge of the sustainability profile of their sourced material will be likely needed, which may result in collection of data from suppliers. This would be additional to VSME, however according to the indications received so far by EFRAG (to be tested in the consultation) this type of information is too specific to be covered in a general (sector agnostic) questionnaire like VSME.

Value chain datapoint in ESRS Set 1	Trickle-down assessment for LSME	Trickle-down assessment for VSME
	<p>be likely needed, which may result in collection of data from SME suppliers²².</p> <p>Perspective 2: LSME requires disclosing inflows when they are material.</p>	
<p>8. Entity-specific disclosures</p>	<p>Conclusion: Perspective 1: Possible trickle-down effect under specific arrangements for Set 1 preparers to be able to cover material sector information and / or to disclose entity-specific disclosure, when they involve the value chain Perspective 2: not applicable, as the nature of the datapoint required by large undertakings to SMEs cannot be defined (due to entity-specific nature of the disclosure).</p>	<p>Conclusion: Same as for LSME</p>
	<p>Disclosures in LSME: In addition to the specific disclosure requirements laid down in LSME, when an undertaking concludes that an impact or risk is not covered or not covered with sufficient granularity by a section of a standard but is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking’s sustainability-related impacts and risks. The inclusion of the entity-specific principle in LSME is needed, to provide a proper reflection of the undertaking’s impacts and risks to users. This is particularly important while sector ESRS are not in place, but it may be important afterwards. Additional direct collection of data from SME suppliers may be necessary to prepare value chain related entity-specific disclosure.</p>	<p>Disclosures in VSME: VSME par. 11- Depending on the type of activities carried out by the undertaking, the inclusion of additional information (metrics and/or narrative disclosures) not covered in this Standard is appropriate, in order to disclose about issues that are common in the undertaking’s sector, as this supports the preparation of relevant, faithful, comparable, understandable and verifiable information. This is not a ‘shall’ but expected to be considered in some sectors.</p>

²² For completeness, the disclosure requirement E5-2 resource outflows also necessitates of a description of the materials, similar to resource inflows, however this is related to the downstream value chain (consumers and end-users) not to the suppliers. So it is not relevant for the scope of this paper.

Summarising the potential trickle-down effect

As illustrated by the above analysis, the LSME draft standard which is the reference for the value chain cap has been developed based on the provisions of the CSRD, in particular with respect to PAIs and proportionality.

In this context the LSME disclosure requirements are both proportionate at listed SME level and not impairing the capacity of Set 1 preparers to report on their value chain except for the implementation of possible specific arrangements.

The conclusion reached in considering the content of LSME ESRS ED and its role in setting the value chain cap, is that some requests to SMEs from large undertakings may derive from specific arrangements between the SME and its corporate clients, due to business reasons. Therefore, EFRAG notes that the trickle-down effect due solely to ESRS reporting obligations of large undertakings (i.e. in isolation from business reasons) has been minimized in LSME ED, while allowing to maintain an appropriate coverage of the value chain information in the ESRS reporting obligations for large corporates. EFRAG also considered that the administrative burden required from SMEs in general to prepare such datapoints does not outweigh the informative and management benefits for them and for business partners and is commensurate with their resources.

The discussions covered also the interaction between LSME and VSME in reducing the trickle down effect. EFRAG notes that non-listed SMEs receive data requests from large undertakings, including due to reporting obligations in the CSRD. While ESRS cannot result in large undertakings having to request disclosures that are not included in ESRS LSME ED, the VSME ED is intended to play a key role in supporting SMEs, when they prepare the information needed by large undertakings for ESRS reporting, as well as for other obligations including for business purposes. Therefore, VSME ED includes simplified disclosures that generally correspond to the reasonable expectations of ESRS Set 1 preparers (i.e. large undertakings that prepare their sustainability statement under ESRS).

In conclusion, non-listed SMEs that apply VSME ED will in general be able to meet the data requests defined for value chain in LSME ED, except for very specific cases. These cases correspond to disclosures which are included in LSME ED (therefore SMEs may receive data requests from large undertakings relating to these disclosures, either due to their ESRS reporting obligations or for other obligations and business purposes), but are not included in the VSME ED, due to their excessive complexity for non-listed SMEs in general. They are principally of a sectorial nature (GHG Removals, substances of concern/high concern, resource inflows), mainly needed for management or specific arrangement purposes.

Annex 7: Timing and location of the sustainability report in European countries²³

Type of enterprise	EU Accounting Directive	IFRS	Austria	Belgium	Germany	Ireland	Italy	Spain	Sweden
Non-listed	Micro	Minimum requirement on Financial Statements: - Balance sheet - Profit & loss account (Subject to Member States transposition law)	IFRS Foundation (2013). A Guide for Micro-sized Entities Applying the IFRS for SMEs (2009). To note: "IFRS for SME" does not refer to the EU size but is applicable to non-public accountable entities, so basically: unlisted-entities		Social balance sheet (minimum requirements)		Same as per EU Accounting Directive. Balance sheet and profit and loss account are simplified with aggregation of accounting items. Exemption to prepare the management report and to provide social or environmental disclosure. Exemption to prepare notes to the FS, providing some very limited disclosure.	Management report (no non-financial information)	Management report (no non-financial information)
	Small	Financial Statements: - Balance Sheet	IFRS SMEs	Management report (no non-financial)	Social balance sheet		Reduced Management report (no non-	Same as per EU Accounting Directive.	Management report (no non-financial)

²³ Sources: European Federation of Accountants and Auditors for SMEs (2018); Accountancy Europe, CSR Europa & GRI (2017); Zager & Decman (2016), Guidelines and Recommendations for Improving the Micro Entities Model of Financial Reporting

Type of enterprise	EU Accounting Directive	IFRS	Austria	Belgium	Germany	Ireland	Italy	Spain	Sweden
	- Profit and loss account - Management report: environmental & social aspects (subject to national transposition and option to waive obligation at national level)		performance information required)			financial information)	Balance sheet and profit and loss account are simplified with aggregation of accounting items. Exemption to prepare the management report and to provide social or environmental disclosure. Moreover, exemption to prepare the cash flow statement.	information)	information)
Medium	Financial Statements: -Balance Sheet -Profit and loss account -Management report: environmental and social aspects (option to waive on national level)	IFRS SMEs	Management report (no non-financial performance information required)	Management report and; Social balance sheet	Management report	Full Management report (no non-financial information)	Same as per EU Accounting Directive. Obligation to prepare a management report, including some disclosure on environmental and employee matters.	Management report (no non-financial information)	Management report (no non-financial information)

Annex 8: Changes agreed by the EFRAG SRB to the version of the ED as approved by EFRAG SR TEG

Objective of this Standard and to which undertakings it applies

1. The objective of this Standard is to support micro-, small- and medium-sized undertakings in:
 - a) contributing to a more sustainable and inclusive economy;
 - b) improving their management of the sustainability issues they face, i.e. environmental and social challenges, such as pollution, workforce health and safety. This will support their competitive growth and enhance their resilience in the short- medium- and long-term;
 - c) providing information that will help satisfy data demand from lenders/credit providers and investors, therefore helping undertakings in their access to finance;
 - d) providing information that will help satisfy the data demand needs of large undertakings requesting sustainability information from their suppliers.
2. This Standard is voluntary and applies to undertakings whose securities are not admitted to trading on a regulated market in the European Union (not listed). [Article 3 of Directive 2013/34/EU], defines and distinguishes three categories of small and medium-sized undertakings based on their balance sheet total, their net turnover and their average number of employees during the financial year. An undertaking is micro if it does not exceed two of the following thresholds: €350,000 in balance sheet total, €700,000 in net turnover and 10 employees. An undertaking is small if it does not exceed two of the following thresholds: €4 million in balance sheet total, €8 million in net turnover, or an average of 50 employees. An undertaking is medium if it does not exceed two of the following thresholds: €20 million in balance sheet total, €40 million in net turnover and 250 employees.
3. These undertakings are outside the scope of the Corporate Social Reporting Directive (CSRD), but are encouraged to use this Standard to prepare and share with whoever it may concern sustainability information. This [draft] Standard covers the same sustainability issues as the European Sustainability Reporting Standards (ESRS) for large undertakings, but is based upon the key concept of proportionality and therefore takes into account undertakings' fundamental characteristics. Micro-Enterprises are welcome to use only certain parts of this Standard, as highlighted in par. 5 (a).

4. Unlike the ESRS for large undertakings, with which consistency has been carefully considered while defining proportionate requirements, this [draft] Standard has no legal authority. It offers undertakings that are outside the scope of the CSRD (see paragraph 2), a voluntary tool for sustainability reporting.

Modules that constitute this Standard

5. This Standard includes three modules that the undertaking can use as the basis for preparation of its sustainability report:

- a) **Basic Module:** Disclosures B 1 and B 2 and Basic Metrics (B 3 – B 12). This module is the target approach for micro-undertakings and a minimum requirement for other undertakings. Materiality analysis is not required, but disclosures B3-B12 are to be provided when they are applicable to the undertaking's specific circumstances.
- b) **Narrative-Policies, Actions and Targets (PAT) Module:** This module defines narrative disclosures (N1 – N5) in relation to Policies, Actions and Targets (PAT), to be reported in addition to disclosures B1-B12, if the undertaking has them in place. This module is suggested to undertakings that have formalised and implemented PAT. Materiality analysis is required in order to disclose which of the sustainability matters in Appendix B are relevant for the undertaking's business and organization (see Principles of Materiality below).
- c) **Business Partners (BP) Module:** This module sets datapoints to be reported in addition to disclosures B1-B12, that are likely to be included in data requests from lenders, investors and corporate clients of the undertaking. Materiality analysis is required, in order to disclose

which of the sustainability matters in Appendix B are relevant for the undertaking's business and organization (see Principles of Materiality below). If the undertaking prepares also the Narrative (PAT) module, the material matters are disclosed only once.

Paragraph 21 below illustrates the available options for the preparation of a sustainability report using this Standard, adopting one or more of these modules. Once chosen, a module shall be complied with in its entirety (with flexibility allowed under paragraph 19), i.e. including the information in each disclosure that is applicable to the undertaking's specific circumstances and, for BP 5 - Disclosure BP 5 –Physical Risks from climate change in the Business Partners module, when they are considered relevant for the undertaking's business and organization.

6. Applying the Basic Module is a prerequisite for applying the Narrative-PAT and/or the Business Partners modules.
7. Appendix A *Defined Terms* includes the definitions of the terms used in this Standard.

Principles for the preparation of the sustainability report (Basic Module, Narrative-PAT, Business Partners)

8. This section includes principles that shall be applied when the undertaking prepares its sustainability report using any of the three modules described above.

Complying with this Standard

9. This Standard provides requirements to allow the undertaking to provide relevant information on:
- a) how its business has had and are likely to have a negative impact on people or on the environment;
 - b) which and how environmental and social issues have affected or are likely to affect its financial position, performance and cash flows.
10. The sustainability report shall provide information which is relevant, faithful, comparable, understandable and verifiable.
11. Depending on the type of activities carried out by the undertaking, the inclusion of additional information (metrics and/or narrative disclosures) not covered in this Standard is appropriate, in order to disclose about issues that are common in the undertaking's sector, as this supports the preparation of relevant, faithful, comparable, understandable and verifiable information.

Preparation on a consolidated basis

12. If the undertaking is a parent company of a group, it is recommended that it prepares its sustainability report on a consolidated basis, including the information of its subsidiaries.

Timing and location of the sustainability report

13. The sustainability report shall be prepared on an annual basis. It shall be available for communication at the same time as the financial statements, if they are prepared.
14. The undertaking may present its sustainability report in a separate section of the management report, if the latter is required by applicable law and regulations or if the management report is prepared voluntarily. Otherwise, the undertaking may present its sustainability report in a different document.
15. To avoid publishing the same information twice, the undertaking may include in its sustainability report a reference to disclosures published in other documents that are accessible at the same time as the sustainability report.

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

16. When the provision of the disclosures in this Standard would require disclosing classified or sensitive information, the undertaking may omit such information, even if it is considered material. The undertaking may omit such classified or sensitive information if:
- a) the information has commercial value because it is secret; and
 - b) its publication will likely negatively affect the financial performance or position of the undertaking.

If the undertaking decides to omit such information, it shall simply state that it is the case under Disclosure B 1 (see par. [2124](#)).

~~Principles for the preparation of the sustainability report (Narrative-PAT, Business Partners)~~

~~17. This section includes principles that shall be applied when the undertaking prepares its sustainability report using the Narrative-PAT module and/or the Business Partners module.~~

~~Time horizons~~

- ~~18. When preparing its sustainability report, the undertaking shall apply the following time horizons:~~
- ~~a) for the short-term time horizon: one year;~~
 - ~~b) for medium-term horizon: from two to five years; and~~
 - ~~c) for the long-term horizon: more than five years.~~

~~Coherence and linkages with disclosures in financial statements~~

- ~~19. IfWhen the undertaking also prepares financial statements and other regulatory reports, If the undertaking also prepares the financial statements, the information provided in its sustainability report following this Standard:~~
- ~~a) shall be coherent with what is reported in the financial statements or in the other regulatory reports for the same period; and~~
 - ~~b) may be presented in a way that facilitates the understanding of the linkages that exist with the information reported in financial statements or in the other regulatory reports, for example using appropriate cross-references.~~

Basic Module

~~20-17.~~ The undertaking shall report on its Environmental, Social and Business Conduct issues using the disclosures B1-B12 below. Comparative information in respect of the previous year shall be included in report, except for metrics being disclosed for the first time. The inclusion of comparative information shall begin from the second year of reporting onwards.

~~24-18.~~ The disclosures B1-B12 are to be reported and no materiality analysis is needed. Certain disclosures only apply to specific circumstances. In particular, the following instructions specify that, in these circumstances, the information is to be reported only if considered "applicable" by the undertaking. When one of these disclosures is omitted, it is assumed to be not applicable.

~~22-19.~~ The undertaking may complement the Metrics from B 3 to B 12 with additional qualitative and/or quantitative information, when appropriate, in accordance with par. 11 above. The undertaking that wants to provide a more comprehensive information, may also integrate the Metrics required from B 3 to B 12 with disclosures, selecting them from the Narrative-PAT Module and/or from the Business Partners Module.

~~23-20.~~ **Instructions to support the preparation of Metrics B3-B12 are available in the *Basic Module Guidance*, on page 18 to 31 of this Standard.**

Disclosure B 1 – Basis for Preparation

~~24-21.~~ The undertaking shall disclose:

- a) which of the following options it has selected in the preparation of its sustainability report using this Standard:
 - i. OPTION A: Basic Module (only);
 - ii. OPTION B: Basic Module and Narrative-PAT Module;
 - iii. OPTION C: Basic Module and Business Partners Module; or
 - iv. OPTION D: Basic Module, Narrative-PAT Module and Business Partner Module.
- b) whether the sustainability report has been prepared on a consolidated (i.e. the report includes information of the undertaking's and its subsidiaries), or on individual basis (i.e. the report is limited only to the information of the undertaking).
- c) the list of the subsidiaries including their registered address¹ covered in the consolidated sustainability report.

Disclosure B 2 – Practices for transitioning towards a more sustainable economy

~~25-22.~~ The undertaking may briefly describe specific practices for transitioning towards a more sustainable economy, in case it has them in place. ~~This may include the practices in relation to climate change, pollution, water and marine resources, biodiversity and ecosystems, circular economy, own workforce, workers in the value chain, affected communities, consumers and end-users, or business conduct.~~ Practices include what the undertaking does to reduce its negative impacts and to enhance its positive impacts on people and on the environment, in order to contribute to a more sustainable economy. Practices in this context shall not include philanthropic activities (e.g., donations), but for instance initiatives to improve working conditions and equal treatment in the workplace, sustainability training for its workforce, collaboration with universities related to sustainability projects, efforts to reduce the undertaking's water and

¹ Registered address is the official address of the undertaking. The registered address is a legal requirement and it is available on public record.

electricity consumption or to prevent pollution, as well as initiatives to improve product safety. This disclosure does not apply when the undertaking prepares its sustainability report using the Narrative-PAT module.

Basic Metrics - Environment

B 3 – Energy and greenhouse gas emissions

~~26-23.~~ The undertaking shall report its impacts on climate, by disclosing its energy usage and greenhouse gas emissions, as requested in the following paragraphs.

~~27-24.~~ The undertaking shall disclose its total energy consumption in MWh, with a breakdown between:

- a) fossil fuels; and
- b) electricity, as expressed in utility billings (with the breakdown between renewable and non-renewable sources, if available).

~~28-25.~~ The undertaking shall disclose its estimated gross greenhouse gas (GHG) emissions in tons of CO₂ equivalents (tCO₂eq), considering the content of the GHG Protocol Corporate Standard, including:

- a) The scope 1 GHG emissions in tCO₂eq (from owned or controlled sources); and
- b) The location-based scope 2 emissions in tCO₂eq (emissions from the generation of purchased energy).

B 4 – Pollution of air, water and soil

~~29-26.~~ The undertaking shall disclose, if applicable, the pollutants (with respective amounts) it emits in its own operations to air, water and soil that it is required to report by law to competent authorities (e.g. under the Industrial Emissions Directive and the European Pollutant Release and Transfer Register) or that it already reports according to an Environmental Management System such as EMAS. If this information is already publicly available, the undertaking may alternatively provide a reference to the document where it is reported, for example, through a hyperlink.

B 5 – Biodiversity

~~30-27.~~ The undertaking shall disclose, if applicable, metrics related to its impacts on biodiversity and ecosystems and land-use ~~change~~, as requested in the following paragraphs.

~~34-28.~~ The undertaking shall disclose the number and area (in hectares) of sites that it owns, that it has leased or that it manages, that are located in or near biodiversity sensitive areas.

~~32-29.~~ The undertaking may disclose metrics related to land-use change such as:

- a) total use of land;
- b) total sealed area;
- c) total nature-oriented area on site; and
- d) total nature-oriented area off site.

B 6 – Water

~~33-30.~~ The undertaking shall disclose its total water withdrawal, i.e. the amount of water drawn into the boundaries of the organization (or facility); in addition, the undertaking shall separately present the amount of water withdrawn at sites located in areas of high water stress.

~~34-31.~~ If applicable, the undertaking shall disclose its water consumption, calculated as the difference between its water withdrawal and water discharge from its production processes.

B 7 – Resource use, circular economy, and waste management

~~35-32.~~ The undertaking shall disclose how it manages resource use, ~~and~~ its waste management practices and whether it applies circular economy principles.

~~36-33.~~ The disclosure shall include:

- a) if the undertaking operates manufacturing, construction and/or packaging processes, the recycled content in the products (goods and materials) and their packaging produced by the undertaking;
- b) if the undertaking operates manufacturing, construction and/or packaging processes, rates of recyclable content in the products and their packaging produced by the undertaking;
- c) the total annual generation of waste in units of weight (preferably) or volume, broken down by type (non-hazardous and hazardous); and
- d) total annual waste diverted to recycle or reuse, expressed in units of weight (e.g. kg or tonnes).

Basic Metrics – Social matters

B 8 – Workforce – General characteristics

~~37-34.~~ The undertaking shall disclose the total number of employees in full-time equivalents or head count broken down:

- a) by type of employment contract: temporary and permanent;
- b) by gender; and
- c) if applicable, by country.

B 9 – Workforce - Health and Safety

~~38-35.~~ The undertaking shall disclose the following information regarding its employees:

- a) the number and rate of recordable work-related accidents;
- b) the number of fatalities as a result of work-related injuries and work-related ill health.

B 10 – Workforce – Remuneration, collective bargaining, and training

~~39-36.~~ The undertaking shall disclose:

- a) when a significant proportion of employees are compensated based on wages subject to minimum wage rules, the relevant ratio of the entry level wage to the minimum wage;
- b) the percentage gap in pay between its female and male employees. The undertaking may omit this disclosure when its headcount is below 150 employees.
- c) the percentage of employees covered by collective bargaining agreements;
- d) the average number of annual training hours per employee and by gender related to the development of skills and competences, either through formal or informal forms of capacity building.

B 11 – Workers in the value chain, affected communities, consumers and end-users

~~4)37.~~ The undertaking may disclose whether it has a process to identify if there are value chain workers, affected communities, and consumers and end-users who are or are likely to be affected by severe negative impacts in relation to the undertaking's operations (i.e. its products, services and activities) and if so, describe such process. If they were identified, the undertaking may describe the types of impacts (including where these arise and the groups affected).

Basic Metrics - Business conduct

B 12 – Convictions and fines for corruption and bribery

~~40-38.~~ In case of convictions and fines in the reporting period, the undertaking shall disclose the number of convictions and the amount of fines for violation of anti-corruption and anti-bribery laws.

Principles for the preparation of the sustainability report (Narrative-PAT, Business Partners)

39. This section includes principles that shall be applied when the undertaking prepares its sustainability report using the Narrative-PAT module and/or the Business Partners module.

Time horizons

40. When preparing its sustainability report, the undertaking shall apply the following time-horizons:

- a) for the short-term time horizon: one year;
- b) for medium-term horizon: from two to five years; and
- c) for the long term horizon: more than five years.

Coherence and linkages with disclosures in financial statements

41. If the undertaking also prepares financial statements and other regulatory reports, —the information provided in its sustainability report following this Standard:

- a) shall be coherent with what is reported in the financial statements or in the other regulatory reports for the same period; and
- b) may be presented in a way that facilitates the understanding of the linkages that exist with the information reported in financial statements or in the other regulatory reports, for example using appropriate cross-references.

Principles of Materiality to be applied for the Narrative-PAT and Business Partners Modules

41-42. Issues that cover environmental, social, and/or business conduct aspects identified in this context are named sustainability matters. This section explains how to identify those sustainability matters that are 'material', meaning relevant and therefore to be reported on.

42-43. Materiality refers to the significance to the undertaking of a sustainability matter and of information about this sustainability matter. Materiality analysis is the process to identify the sustainability matters that undertakings should report on. The undertaking is encouraged to use the list in Appendix B *List of Sustainability Matters used for Materiality Assessment* of this Standard as guidance for the identification of its material sustainability matters. The materiality analysis does not apply to an undertaking that decides to only apply the Basic Module.

43-44. As part of its materiality analysis, the undertaking will assess impacts that it has or is likely to have on people and the environment, as well as financial risks and opportunities that do or may derive from sustainability matters. Identifying which sustainability matters are material is needed particularly to minimize or avoid negative impacts. At the same time, it can help the undertaking to improve its products or services or to develop new ones that address environmental or social challenges. Understanding financial risks allows the undertaking to reduce operational costs, avoid fines, litigations or reputational damages.

44-45. When assessing whether a sustainability matter is to be reported, because it is material to the undertaking, two dimensions have to be considered, namely impact materiality and financial materiality. This is what is generally referred to as double materiality analysis.

Impact materiality

~~45-46.~~ From an impact perspective, a sustainability matter is to be reported on when it gives rise to material impacts. This includes:

- a) actual or potential impacts on people or on the environment over the short, medium, and long-term time horizons. An impact is actual when it is already happening. An impact is potential when it is likely to happen; and
- b) impacts connected with the undertaking's own business operations, products and services as well as through its business relationships, such as those that arise from the operations of suppliers.

~~46-47.~~ To determine if an actual negative impact is material, the undertaking has to consider how severe the impact is on people and the environment. To determine if a potential negative impact is material, the undertaking has to consider the severity of the impact on people and the environment as well as the likelihood of that impact happening. Severity is based on:

- a) scale, i.e., how grave the harm caused to people or to the environment is (e.g., minor injury at work without day lost is lower in the scale compared to fatality at work; inadequate industrial waste disposal leading to soil pollution within a local facility is lower in the scale compared to a leak of harmful chemicals in a river leading to severe damage of ecosystem and wildlife);
- b) scope: how widespread the harm caused to people or to the environment is (e.g., amount of affected people, size of contaminated land);
- c) the irremediable character of the impact: whether and to what extent it is possible to remediate the harm caused to people or on the environment (e.g., cleaning up the contaminated land, compensations and/or indemnities for affected people).

~~47-48.~~ The consideration of scale, scope and irremediability are meant to guide undertakings when analysing the severity of its impacts. The undertaking is not expected to report on the details related to each of these three aspects.

48-49. In the case of a potential negative human rights impact, the severity of the impact takes precedence over its probability.

49-50. Quantitative measures of impacts are the most objective evidence to assess their materiality. However, quantitative information is not always available or may be costly to produce. Qualitative analysis can be sufficient for the undertaking to reasonably conclude that a matter is material or not.

Financial materiality

50-51. From a financial perspective, a sustainability matter is material if it pertains to financial risks that could be reasonably expected to have material financial effects, i.e. to materially influence the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term time horizons. In addition to the undertaking's business operations, matters related to the undertaking's business relationships with other companies should also be considered.

51-52. Material impacts generated by the undertaking are generally a source of financial risks. However, the undertaking shall also consider risks that are not related to its material impacts.

52-53. Financial opportunities related to a sustainability matter may, like risks, generate financial effects. Reporting on financial opportunities is optional when preparing a sustainability report under this Standard.

53-54. Dependencies on natural and social resources may trigger financial risks in two 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 business relationships on acceptable terms.

54-55. To determine whether a financial risk is material, the undertaking assesses its probability and the potential size of the financial effects on the undertaking.

Stakeholders and their relevance to the materiality analysis process

55-56. Stakeholders are those individuals or groups of people who can exercise influence over the undertaking and/or be affected by the activities of the undertaking. There are two main groups of stakeholders:

- a) affected stakeholders: individuals or groups of people whose interests are affected or could be affected – positively or negatively – by the undertaking's activities and its business relationships; and
- b) users of the sustainability report: including investors, lenders, business partners, social partners and civil society organizations.

56-57. Some stakeholders may belong to both groups defined in paragraph 565. An undertaking may engage with stakeholders in its materiality analysis to find out which sustainability matters are the most important to them. In many cases, micro enterprises will consider the views only of their most relevant stakeholders among the ones mentioned in paragraph 565.

Narrative – Policies, Actions and Targets (PAT) Module

Disclosure **N 1** – Strategy: business model and sustainability related initiatives

57-58. The undertaking shall disclose the key elements of its strategy and its business model, including:

- a) a description of significant groups of products and/or services offered;
- b) a description of significant market(s) the undertaking operates in (B2B, wholesale, retail, countries);
- c) a description of main business relationships (such as key suppliers, customers distribution channels and consumers); and
- d) if applicable, a description of the key elements of its strategy that relate to or affect sustainability matters.

Disclosure **N 2** – Material sustainability matters

58-59. The undertaking shall disclose the material sustainability matters resulting from its materiality analysis (see from paragraph 42 to 57) including a brief description of each sustainability matter (listed according to par. 43) and:

- a) how each matter has an impact on people or the environment;
- b) its actual and potential effects on the undertaking's present or future financial position and performance; and
- c) its actual and potential effects on the undertaking's activities and strategy.

Disclosure **N 3** – Management of material sustainability matters

59-60. The undertaking shall disclose how it manages its material sustainability matters, including:

- a) whether it has adopted policies or actions to (i.) prevent, (ii.) mitigate and (iii.) remediate actual and potential negative impacts and/or to address financial risks. If applicable, the undertaking may refer to the [due diligence] or risk management processes implemented;
- b) if the undertaking has policies in place, it shall describe:
 - i. the objective(s) of the policy and which material sustainability matters it addresses;
 - ii. the scope of the policy in terms of activities, value chain, countries in which the undertaking is active in;
 - iii. if ~~applicable~~ **relevant**, affected stakeholder groups addressed by the policy;
 - iv. if applicable, a reference to third-party standards or initiatives the undertaking commits to respect through the implementation of the policy; and
 - v. the targets the undertaking uses to monitor the implementation of the policy and the progress achieved;
- c) if the undertaking has actions in place, it shall describe:
 - i. the list of key actions taken in the reporting year and planned for the future;
 - ii. the scope of those actions (i.e., if they also address actors in the value chain, if they are implemented in different location and geographies or which affected stakeholder groups they address);

- iii. the time horizon under which the undertaking intends to complete each key action; and
- iv. the targets the undertaking uses to monitor the actions implemented and the progress achieved.

60-61. Where material, the undertaking shall disclose the actions taken in the reporting period to improve its energy efficiency and to reduce its greenhouse gas emissions and the related possible implications in terms of financial risks and, if applicable, opportunities.

61-62. When the undertaking considers that negative impacts are material in relation to (i) workers in the value chain; and/or (ii) consumers and end users; and/or (iii) affected communities, it may disclose:

- a) the policies that it has adopted to manage those material impacts, as well as associated material risks;
- b) the actions it has taken on material impacts, and approaches to managing material risks, and effectiveness of those actions;
- c) targets related to managing material negative impacts and managing material risks.

63. These disclosures are limited to the description of the policies, actions and targets that the undertaking has put in place.

62-64. Where material, the undertaking shall disclose whether it has the following in place to support the prevention of incidents of corruption or bribery:

- a) separation of duties; and/or
- b) training for its employees; and
- c) any actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery.

Disclosure N 4 – Key stakeholders

63-65. If the undertaking engages with stakeholders, it may disclose:

- a) the categories of key stakeholders considered (the undertaking can use categories such as investors, lending banks/creditors, business partners, trade unions, NGO); and
- b) a brief description of the engagement activities.

Disclosure N 5 – Governance: responsibilities in relation to sustainability matters

64-66. The undertaking shall describe:

- a) the governance and responsibilities in relation to sustainability matters. If applicable, this disclosure shall cover roles and responsibilities of the highest governance body or of the individual(s) in charge of managing sustainability matters within the undertaking.

Business Partners Module

65-67. This module provides additional datapoints in relation to the information that is generally needed by business partners, investors, and lenders of the undertaking. They are expected to address data requests that the undertaking receives or is likely to receive from lenders, investors and corporate clients that require sustainability data from their suppliers. In relation to the information needs of financial market participants, these additional datapoints reflect their respective obligations under relevant laws and regulations. They are also relevant for business partners when they assess the sustainability profile of the undertaking as supplier or potential supplier.

List of material matters

66-68. In this module, the materiality analysis described from paragraphs 42 to 57 is required. The undertaking shall disclose the material sustainability matters resulting from its materiality analysis based on the list in Appendix B List of Sustainability Matters.

Entity-specific consideration when reporting on GHG emissions under B3 (Basic Module)

69. Depending on the type of activities carried out by the undertaking, a quantification of the undertaking's Scope 3 GHG emissions provides relevant information (refer to paragraph 11 of this Standard) on the undertakings value chain impacts on climate change.

67. —

70. Scope 3 emissions are indirect GHG emissions (other than Scope 2) that derive from an undertaking's value chain. They include the activities that are upstream of the undertaking's operations (e.g. purchased goods and services, purchased capital goods, transportation of purchased goods, etc.) and activities that are downstream of the undertaking's operations (e.g. transport and distribution of the undertaking's products, use of sold products, investments, etc). If the undertaking decides to provide this metric, it should refer to the 15 types of Scope 3 GHG emissions identified by the GHG Protocol Corporate Standard and detailed by the [GHG Protocol Corporate Value Chain \(Scope 3\) Accounting and Reporting Standard](#). When it reports on Scope 3 GHG emissions, the undertaking includes significant Scope 3 categories (as per the [Corporate Value Chain \(Scope 3\) Accounting and Reporting Standard](#)), based on its own assessment of relevant Scope 3 categories. Undertakings can find further guidance on specific calculation methods for each category in the GHG Protocol "[Technical guidance for Calculating Scope 3 Emissions](#)".

71. If the undertaking discloses entity-specific information on its Scope 3 emissions it shall present it together with the information required under "B3 - Energy and greenhouse gas emissions", when reporting its Scope 1 and Scope 2 emissions.

Disclosures in the BP module

69-72. The text below provides the list of disclosures from BP1 to BP 11 to be considered and reported upon if material, following the materiality analysis performed by the undertaking in line with par.67. When not reported upon, a disclosure shall be assumed to be 'not material' for the undertaking.

70-73. **Instructions to support the preparation of disclosures form BP1-BP11 are available in the Business Partners Module Guidance, on page 32 to 34 of this Standard.**

Disclosure BP 1 – Revenues from certain sectors

74-74. The undertaking shall include a statement indicating if it is active in one of the following sectors and what are the related revenues:

- a) controversial weapons such as anti-personnel mines, cluster munitions, chemical weapons and biological weapons; and / or
- b) the cultivation and production of tobacco; and/or
- c) fossil fuel (coal, oil and gas) sector (i.e., the undertaking 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 Council¹⁷), including a disaggregation of revenues derived from coal, from oil and from gas); and/or
- d) chemicals production, i.e., its activities fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006².

Disclosure BP 2 – Gender diversity ratio in governance body

~~72.75.~~ If the undertaking has a governance body in place, the undertaking shall disclose the related gender diversity ratio.

Disclosure BP 3 – GHG emissions reduction target

~~73.76.~~ If the undertaking has set GHG emission reduction targets, it shall provide its GHG emission reduction targets for:

- a) scope 1 emissions; ~~and~~
- b) scope 2 emissions; ~~and~~.

~~74.77. This disclosure includes Scope 3 emissions, only when they are disclosed under paragraph 70 above and the undertaking has set GHG emission reduction targets for Scope 3 emissions. .)~~

Disclosure BP 4 – Transition plan for climate change mitigation

~~75.78.~~ The undertaking shall provide information about its transition plan for climate mitigation with an explanation of how GHG emission reduction targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement. This disclosure is applicable only if the undertaking has adopted such transition plan.

Disclosure BP 5 –Physical Risks from climate change

~~76.79.~~ The undertaking shall disclose the anticipated financial effects that physical risks from climate change may have on the company. This disclosure is applicable only if the undertaking is exposed to material physical risks. In particular:

- a) the monetary amount and the percentage of the undertaking's total assets that can be subjected to material physical risks over the short, the medium and the long-term, before considering climate change adaptation actions disaggregated by acute and chronic physical risk;
- b) the proportion of assets at material physical risk addressed by the climate change adaptation actions;
- c) the location of the significant assets affected by material physical risks;
- 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; and

² "Manufacture of pesticides and other agrochemical products" listed in Division 20.2 of Annex I Regulation EC 1893/2006.

- e) the breakdown of the undertaking's carrying value of its real estate assets, by energy efficiency classes.

Disclosure BP 6 – Hazardous waste and/or radioactive waste ratio

~~77-80.~~ If the undertaking generates hazardous and/or radioactive waste, the undertaking shall disclose the total amount of hazardous waste and/or radioactive waste generated (radioactive waste is defined in Article 3(7) of Council Directive 2011/70/Euratom).

Disclosure BP 7 – Alignment with internationally recognized instruments

~~78-81.~~ The undertaking shall disclose whether its policies with regard to its own workforce are aligned with relevant internationally recognized instruments, including the UN Guiding Principles on Business and Human Rights.

Disclosure BP 8 – Processes to monitor compliance and mechanisms to address violations

~~79-82.~~ The undertaking shall disclose whether it has processes in place to monitor compliance with the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the International Bill of Human Rights and the eight fundamental conventions identified in the ILO Declaration or grievance/complaints handling mechanisms to address violations of the above standards with regard to its own workforce.

Disclosure BP 9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles (including the principles and rights set out in the 8 fundamental conventions of the ILO Declaration and the International Bill of Human Rights)

~~80-83.~~ The undertaking shall disclose whether there have been any violations of the UN Guiding Principles on Business and Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work or the OECD Guidelines for Multinational Enterprises with regard to its own workforce during the reporting year.

Disclosure BP 10 – Work-life balance

~~81-84.~~ The undertaking shall disclose the percentage of employees:

- a) entitled to take family-related leave, with a breakdown by gender; and
- b) that took family-related leave, with a breakdown by gender.

Family-related leave includes maternity, paternity, parental, and carers' leave.

Disclosure BP 11 – Number of apprentices

~~82-85.~~ If applicable, the undertaking shall disclose the number of apprentices in the reporting period.

Basic Module: Guidance

86. This Guidance is intended to support the preparation of the Metrics in the Basic Module.

Environmental Metrics

Metric B 3 – Energy and greenhouse gas emissions

Impacts on climate: energy usage and greenhouse gas emissions

87. Under paragraphs 27 and 28, the undertaking reports on its climate impacts, providing information about its energy use and greenhouse gas emissions. This guidance for disclosure B3 does not constitute an additional datapoint to the disclosures described in paragraphs 27 (on energy consumption) and 28 (on GHG emissions), but rather an overarching objective of the Basic disclosure B3.

88. Climate impacts are significantly driven by energy consumption. Therefore, it is relevant to disclose both the quantity as well as the type - e.g. fossil fuels such as coal, oil, gas versus renewable energy) and mix of energy consumed. Examples of energy disclosures are total energy consumption broken down by fossil fuels and electricity. Other breakdowns may be reported, such as consumption of purchased or self-generated electricity from renewable sources. This information may be provided in the following format.

	202(x) Energy consumption (MWh)
<i>Fossil fuels</i>	486
<i>Electricity</i>	10

89. Undertakings are to report the energy consumption in terms of final energy, which is understood as the amount of energy delivered to the undertaking, for example the Megawatt-Hours (MWh) of electricity purchased from the utility, steam received from a nearby industrial plant or diesel purchased at petrol stations.

90. In case the undertaking purchases fossil or renewable fuels, such as natural gas, oil or biomass, to generate electricity, heat or cooling for own consumption, it has to avoid double counting. Therefore, the undertaking accounts the energy content of the purchased fuel only as fuel consumption and does not account or report its electricity and heat consumption again. In case of electricity generation from renewable energies such as solar or wind – and where no fuel use is necessary - the undertaking accounts the amount of electricity generated and consumed as electricity consumption.

91. As for greenhouse gas emissions arising from the undertaking's activities, this requirement builds on the definitions and rules of the GHG Protocol, the leading accounting standard for GHG emissions. Under paragraph 28, undertakings are to report on their Scope 1 and Scope 2 emissions. Scope 1 GHG emissions cover direct emissions from owned or controlled sources. Scope 2 emissions are indirect GHG emissions that are a consequence of the activities of the reporting company (as they derive from the undertaking's consumed energy), but occur at sources owned or controlled by another company. Further guidance is provided in the sections below on how to calculate Scope 1 and 2 emissions.

92. Scope 1 and 2 emissions may be reported in the following format.

	202(x) GHG emissions (tCO ₂ e)
Scope 1	45
Scope 2	6
Total	51

Scope 1 emissions calculation guidance

93. Typical Scope 1 emissions include CO₂ (and CH₄ and N₂O) emissions associated with fuel combustion (for example in boilers, furnaces, vehicles, etc), as well as fugitive emissions from air conditioning and industrial processes.

94. Emissions associated with combustion can be calculated by the expression:

$$Emissions_{GHG,Fuel} = Activity\ Data_{Fuel} * EF_{GHG,Fuel} * GWP_{GHG}$$

Where:

$Emissions_{GHG}$ are the emissions of CO₂, CH₄ or N₂O resulting from the combustion of the Fuel in t CO₂e;

$Activity\ Data_{Fuel}$ is the quantity of fuel consumed, typically expressed in energy units, but can also be in volume (m³ or l) or mass (tonnes or kg);

$EF_{GHG,Fuel}$ is the specific combustion Emission Factor for the fuel. The units of the EF need to be consistent with the units of the Activity data;

GWP_{GHG} is the Global Warming Potential of the GHG (CO₂, CH₄ or N₂O). The activity data can be determined using fuel purchase receipts, purchase records, or through direct measurement at the combustion device. The fuel quantities can be measured in different forms (typically mass or volume) and care needs to be taken to make sure that the activity data and the EF are expressed using the same units. It is not uncommon for emission factors of fuels to be expressed in terms of energy (Lower Calorific Value) in which case, a further step to convert between the volume or mass of the fuel and its energy content is needed (see example below). So, the expression above can take different forms, namely:

$$Emissions_{GHG,Fuel} = Activity\ Data_{Fuel} * EF_{GHG,Fuel} * GWP_{GHG}$$

$$Emissions_{GHG,Fuel} = [Volume * CalorificValue]_{Fuel} * EF_{GHG,Fuel} * GWP_{GHG}$$

95. CO₂ emission factors are either derived through analysis of the carbon and heat content of the fuel (unlikely to be needed for SME undertakings) or through the use of published emission factors for the most common fuels. EFs for CH₄ and N₂O will depend on the type of combustion technology and vary with it. In most cases, CH₄ and N₂O emissions are within the measurement error of CO₂ and can be neglected. Sometimes the emission factor can already take into account the GWP of the GHG emission. In that case the parameter GWP_{GHG} does not need to be considered.

96. For the Global Warming Potential (GWP,) use the most recent values published by the Intergovernmental Panel on Climate Change (IPCC) based on a 100-year time horizon to calculate CO₂eq emissions of non-CO₂ gases. The Global Warming Potential is derived from the latest list

published by the Intergovernmental Panel on Climate Change (IPCC). In this case, the current list is the one in the IPCC's 6th Assessment Report, Chapter 7SM3 .

97. The following table provides a list of non-exhaustive sources of emission factors for fuels. Undertakings may also reference authoritative national sources which may be more relevant for their particular case.

Documentation Sources:

<i>Data</i>	<i>Documentation Source</i>
Activity data	fuel purchase receipts, purchase records, or through direct measurement at the combustion device.
Emissions Factors (EF):	
Fuel	ADEME – Bilant Carbonne https://base-empreinte.ademe.fr/ IPCC – Emissions Factor Database https://www.ipcc-nggip.iges.or.jp/EFDB/find_ef.php?reset= IPCC – Guidelines for National Greenhouse Gas Inventories Microsoft Word - V2 Ch2 Stationary Combustion Final.doc (iges.or.jp)
Global Warming Potential (GWP)	IPCC – Global Warming Potential p. 16 https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_Chapter07_SM.pdf

You can also find more guidance and tools on how to act and report on climate in the <https://smeclimatehub.org/> .

Example

83. Company A burns Nr. 4 fuel oil in an industrial boiler. For its financial accounting, it keeps track of its costs and for GHG accounting purposes it keeps track of volumes (m3) expressed in the fuel receipts. From the receipts, it determines the annual volumes of fuel oil bought and keeps track, as well, of the fuel oil inventory on the 1st day of the year. In 2023 it had purchased 100 m3 of fuel oil. On its registers on the 1st Jan of 2023 it had 2.5 m3 in its deposit and on 1st Jan 2024 it had 1 m3. Thus, it has determined (through purchase and measurement of inventory) that during 2023 it consumed 101.5 m3 of fuel oil.

98.

Using the IPCC list of emissions factors (Table 2.3, page 2.18) it approximates its emission factor as a 50/50 blend of Diesel oil and Residual oil as 75.75 t CO2/TJ and by using published statistics on

³ Smith, C., Z.R.J. Nicholls, K. Armour, W. Collins, P. Forster, M. Meinshausen, M.D. Palmer, and M. Watanabe, 2021: The Earth's Energy Budget, Climate Feedbacks, and Climate Sensitivity Supplementary Material. In Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Masson-Delmotte, V., P. Zhai, A. Pirani, S.L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M.I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J.B.R. Matthews, T.K. Maycock, T. Waterfield, O. Yelekci, R. Yu, and B. Zhou (eds.)]. Available from <https://www.ipcc.ch/>.

energy determined that its net calorific value of the fuel is 0.03921 TJ/m³. Given that the CO₂ GWP equal one, its CO₂ emission for this specific Scope 1 source is:

$$101.5 \text{ m}^3 * 0.03921 \text{ TJ/m}^3 * 75.75 \text{ t CO}_2/\text{TJ} * 1 = 301.5 \text{ t CO}_2$$

For completeness of this example, the CH₄ and N₂O emissions are also calculated. Checking the IPCC list of emission factors, these are respectively 3 kg of CH₄/TJ and 0.6 kg of N₂O/TJ, thus the emissions will be:

$$\text{CH}_4 \text{ emissions} = 101.5 \text{ m}^3 * 0.03921 \text{ TJ/m}^3 * 3 \text{ kg CO}_2/\text{TJ} * 29.8 = 0.36 \text{ t CO}_2\text{e}$$

$$\text{N}_2\text{O emissions} = 101.5 \text{ m}^3 * 0.03921 \text{ TJ/m}^3 * 0.6 \text{ kg CO}_2/\text{TJ} * 273 = 0.65 \text{ t CO}_2\text{e}$$

As mentioned, CH₄ and N₂O emissions add around 1 t CO₂e to the CO₂ value of 301.5 t CO₂, so about 0.3% of the total. This could be considered well within an acceptable reporting error and so, could not have been calculated and reported.

Global Warming Potentials for CH₄ and N₂O are derived from [IPCC's 6th Assessment Report, Chapter 7SM⁴](#).

Location-based Scope 2 emissions calculation guidance

84. Location-based Scope 2 includes emissions from electricity, heat, steam and cooling purchased or acquired and consumed by the reporting company, reflecting the average emissions intensity of grids on which the energy consumption occurs and using mostly grid-average emission factor data.

99.

00. Typical sources of Scope 2 emissions relate to any equipment that consumes electricity (electrical engines, lights, buildings, etc), heat (heat in industrial processes, buildings, etc.), steam (industrial processes) and cooling (industrial processes, buildings).

01. Emissions associated with the purchase and consumption of electricity, heat, steam and cooling can be calculated by the expression:

$$Emissions_{GHG} = Activity\ Data * EF$$

Where:

— $Emissions_{GHG}$

are the emissions of GHG's resulting from the production of the electricity, heat, steam or cooling (in the case of combustion of fuels typically, CO₂, CH₄ and N₂O);

Activity Data

⁴ Smith, C., Z.R.J. Nicholls, K. Armour, W. Collins, P. Forster, M. Meinshausen, M.D. Palmer, and M. Watanabe, 2021: The Earth's Energy Budget, Climate Feedbacks, and Climate Sensitivity Supplementary Material. In Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Masson-Delmotte, V., P. Zhai, A. Pirani, S.L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M.I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J.B.R. Matthews, T.K. Maycock, T. Waterfield, O. Yelekci, R. Yu, and B. Zhou (eds.)]. Available from <https://www.ipcc.ch/>.

Is the quantity of fuel consumed, typically expressed in energy units (e.g. MWh);

$$—EF_{GHG,Energy}$$

is the Emission Factor for the production of energy (electricity, heat, steam or cooling). The emission factors can be grid-average factors. The units of the EF need to be consistent with the units of the Activity data.

102. A grid average emission factor is an emission factor that characterizes all the GHG emissions associated with the quantity of electricity generation produced from facilities located within a specified geographic boundary. These emission factors are usually produced for periods of one year – so, averaging emissions and electricity production over a calendar year – and are often produced by the Electricity System Operator (ESO), Transmission System Operators (TSO), the electricity system supervisory body or other competent authorities. There are also grid average emission factors calculated at much shorter periods, e.g. seconds or minutes.

103. Undertakings may also want to provide their market-based scope 2 figure. Emission factors for market-based Scope 2 emissions reflect the contractual arrangements of the undertaking with its energy suppliers. Market-based emission factors can be provided by their electricity or heat suppliers, supported by their own purchase of Energy Attribute Certificates or Power Purchase Agreements (PPAs) or the use of residual-mix emission factors.

104. Scope 2 accounting methods are explained in more detail in the GHG Protocol Scope 2 Guidance.

Example

105. Company A occupies an office building of 2000 m² in Paris, where it pays the electricity consumed for the central heating and cooling, lighting, computers and other electric appliances. Through its utility bills, it has estimated that the building consumed 282 MWh of electricity in 2022. By using the emission factor provided by [nowtricity.com](https://www.nowtricity.com) for France in 2022, it has estimated its Scope 2 emissions for its building electricity consumption to be

$$Emissions_{GHG} = 282\,000 [kWh] * 73 \left[\frac{g\ CO_2eq}{kWh} \right] = 20.6\ t\ CO_2eq$$

106. The following table provides a list of non-exhaustive sources of electricity emission factors. Undertakings may also reference authoritative national or grid sources which may be more relevant for their particular case.

Documentation Sources:

<i>Data</i>	<i>Documentation Source</i>
Activity data	Purchase receipts or utility bills, contract purchase or firm purchase records

Emissions Factors (EF):

Europe Grid electricity	Association of Issuing Bodies (AIB) – Residual Mix Grid Emission Factors https://www.aib-net.org/facts/european-residual-mix ADEME – Bilant Carbone https://base-empreinte.ademe.fr/ JRC – Historical GHG emissions factor for electricity consumption https://data.jrc.ec.europa.eu/dataset/919df040-0252-4e4e-ad82-c054896e1641#dataaccess
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Life-cycle electricity production emission factors
<https://www.nowtricity.com/>

North America electricity	Grid	USEPA GHG emission factors Hub https://www.epa.gov/climateleadership/ghg-emission-factors-hub Government of Canada https://publications.gc.ca/collections/collection_2023/eccc/En84-294-2023-eng.pdf
Other regions/Global		IEA's Annual GHG emission factors for World countries from electricity and heat generation (2022 data set, paid data set) https://www.iea.org/data-and-statistics/data-product/emissions-factors-2022#emissions-factors
Global Warming Potential (GWP)		IPCC – Global Warming Potential (GWP-100) p. 16 https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_Chapter07_SM.pdf

107. More guidance and tools on how to act and report on climate can be found at <https://smeclimatehub.org/>.

Conversion between different energy units

108. Undertakings are to report the energy consumption in terms of final energy, which is understood as the amount of energy delivered to the undertaking, for example the Megawatt-Hours (MWh) of electricity purchased from the utility, steam received from a nearby industrial plant or diesel purchased at petrol stations.

109. Paragraph 2427 indicates MWh as the unit of choice for measuring energy consumption. In case of fuel or biomass, data expressed in other units, such as energy content (e.g., kJ, Btu), volume (e.g., litres, m³), or mass (e.g., metric tonnes, short tonnes), a conversion to MWh is necessary.

110. For fuel consumption measured by mass (e.g., wood, coal), the undertakings should:

1. Obtain the Net Calorific Value (e.g., kJ/metric ton, TJ/Gg) of the fuel. It can be a typical value published by reliable sources (e.g., IPCC), or may be provided by the supplier or attained internally.

2. Convert the Net Calorific Value to MWh/ton. Example:

$$1 \text{ TJ} = 10^{12} \text{ J} = 277.778 \text{ MWh}; \quad 1 \text{ Gg} = 10^9 \text{ g} = 1000 \text{ t}$$

$$11.9 \text{ TJ/Gg} = 11.9 * 277.778/1000 \text{ t} = 3.306 \text{ MWh/ton}$$

3. Calculate the energy content of the mass. Example:

$$1245345 \text{ t} * 3.306 \text{ MWh/ton} = 4117111 \text{ MWh}$$

111. For liquid fuel, the undertakings should:

1. Convert volume information to mass, multiplying volume by fuel density. Example:

purchased from the utility, steam received from a nearby industrial plant or diesel purchased at petrol stations.

Paragraph 27 indicates MWh as the unit of choice for measuring energy consumption. In case of fuel or biomass, data expressed in other units, such as energy content (e.g., kJ, Btu), volume (e.g., litres, m³), or mass (e.g., metric tonnes, short tonnes), a conversion to MWh is necessary.

For fuel consumption measured by mass (e.g., wood, coal), the undertakings should:

1. Obtain the Net Calorific Value (e.g., kJ/metric ton, TJ/Gg) of the fuel. It can be a typical value published by reliable sources (e.g., IPCC), or may be provided by the supplier or attained internally.

2. Convert the Net Calorific Value to MWh/ton. Example:

$$1 \text{ TJ} = 10^{12} \text{ J} = 277.778 \text{ MWh}; \quad 1 \text{ Gg} = 10^9 \text{ g} = 1000 \text{ t}$$

$$11.9 \text{ TJ/Gg} = 11.9 * 277.778/1000 \text{ t} = 3.306 \text{ MWh/ton}$$

3. Calculate the energy content of the mass. Example:

$$1245345 \text{ t} * 3.306 \text{ MWh/ton} = 4117111 \text{ MWh}$$

For liquid fuel, the undertakings should:

1. Convert volume information to mass, multiplying volume by fuel density. Example:

$$\text{Diesel} = 4\,456\,000 \text{ l}; \quad \text{Diesel density} = 0.84 \text{ kg/l}$$

$$4\,456\,000 \text{ (l)} * 0.84 \text{ (kg/l)} = 3\,743\,040 \text{ kg} = 3\,743 \text{ t}$$

2. Calculate the energy content, multiplying mass by Net Calorific Value. Example:

$$3\,743 \text{ [t]} * 43 \text{ [TJ/Gg]} = 3\,743 \text{ t} * 43 \text{ TJ/(1000 [t])} = 160.949 \text{ [TJ]}$$

3. Convert TJ to MWh. Example:

$$1 \text{ TJ} = 10^{12} \text{ J} = 277.778 \text{ MWh}$$

$$160.949 \text{ [TJ]} = 277.778 \text{ [MWh/TJ]} * 160.949 \text{ [TJ]} = 44\,708 \text{ MWh}$$

Documentation Source:

<i>Data</i>	<i>Documentation Source</i>
CDP	CDP Technical Note: Conversion of fuel data to MWh https://cdn.cdp.net/cdp-production/cms/guidance_docs/pdfs/000/000/477/original/CDP-Conversion-of-fuel-data-to-MWh.pdf?1479755175

Metric B 4 – Pollution of air, water and soil

Guidance on which undertakings need to report on pollution and what pollutants do undertakings need to report on.

Paragraph 29 establishes that, if applicable, the undertaking shall disclose the pollutants it emits to air, water and soil, in its own operations, if such information is already required to be reported by law to competent authorities or under an Environmental Management System such as EMAS.

The metrics to be disclosed under this paragraph 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,

slaughterhouses, etc. 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 Standard 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 report.

Likewise, if under an EMAS certification an undertaking has been identified as having to monitor and report on the pollutants listed in the PRTR, these are, in principle, relevant aspects for the undertaking to include in its sustainability report.

If an undertaking has or operates only one facility and its pollution data is already publicly available, the undertakings may provide a reference to the document where such information is provided, instead of reporting it again. Likewise, if the undertaking publishes an organisation wide EMAS report including pollution data, it can include it in the sustainability report by reference.

To report the information on pollutants into the sustainability report, the undertaking should indicate the type of pollutant material, alongside the amount emitted to air, water and soil in a suitable mass unit (e.g., t or kg).

Below is an example of how undertakings may present information on their emissions to air, water, soil divided by pollutant.

Pollutant	Emissions (kg)	Medium of release (air, water, soil)
e.g., Cadmium and compounds	10	Water
Type of pollutant 2		
Type of pollutant 3		

Metric B 5 – Biodiversity

Guidance on how to identify sites in or near Biodiversity Sensitive Area

Paragraph 30 reports that the undertaking shall disclose sites in or near biodiversity sensitive areas. Biodiversity sensitive areas are defined as such by special nature protection regulation, at European or international level. These comprise areas belonging to the Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas ('KBAs'), as well as other protected areas, as referred to in Appendix D of Annex II to Commission Delegated Regulation (EU) 2021/21398.

The following table is a suggestion for presenting information on sites in or near Biodiversity sensitive areas. The undertaking may provide the location (e.g. country and site name) without specifying the exact address of the plant.

Location	Area (hectares)	Biodiversity sensitive Area	Specification (located in; located near Biodiversity sensitive areas)
Country – Site 1			
Country – Site 2			
Country –			

Site 3			
...			

For the purpose of this Standard, the term “near” should be interpreted as meaning an area that is overlapping (partially in) or adjacent to a Biodiversity Sensitive area.

Documentation Sources:

<i>Data</i>	<i>Documentation Source</i>
Natura 2000 Network of protected areas	https://natura2000.eea.europa.eu/
Key Biodiversity Areas - IUCN	https://www.keybiodiversityareas.org/sites/search
UNESCO – World Heritage Centre	https://whc.unesco.org/en/list/

Guidance on how to calculate and report land-use changes

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):

- (a) total use of land;
- (b) total sealed area;
- (c) total nature-oriented area on site; and
- (d) total nature-oriented area off site.

The following table is a suggestion for presenting information on land-use change.

Land-use Type	Area (hectares or m ²)		
	Previous year	Reporting year	% change
Total sealed area			
Total nature-oriented area on site			
Total nature-oriented area off site			
Total use of land			

Documentation Sources:

<i>Data</i>	<i>Documentation Source</i>
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Metric B 6 – Water

Guidance on how to calculate and report on water withdrawals and water consumption

Water withdrawal relates to the amount of water an undertaking draws into the organizational boundaries of the undertaking from any source during the reporting period. In practice, for most undertakings, this relates to the amount of water taken from the public water supply network, as indicated in the utility bills. However, where applicable, water withdrawal also includes the amounts of water from other sources, such as groundwater from own wells, water taken from rivers or lakes or water received by other undertakings. Rainwater collected by the undertaking is not considered as a water withdrawal.

Water consumption is the amount of water drawn into the boundaries of the undertaking that is not discharged or planned to be discharged back to the water environment or to a third party. This typically relates to water evaporated – e.g. in thermal energy processes, like drying or power production –, water embedded into the products – e.g. in food production –, or water for irrigation purposes – e.g. in agriculture or for watering company premises. Collected rainwater can be considered in the calculation of water consumption, as a separate input from water withdrawal.

Water discharge means the amount of water transferred, for example, directly to receiving water bodies such as lakes or rivers, the public sewer or to other companies for cascading water use.

Water consumption can therefore be calculated as:

$$\text{Water consumption} = \text{Water [withdrawal + rainwater harvest – discharges]}$$

For undertakings which solely withdraw water from the public water network and discharge it to the sewer, water consumption will be close to zero and can therefore be omitted in reporting.

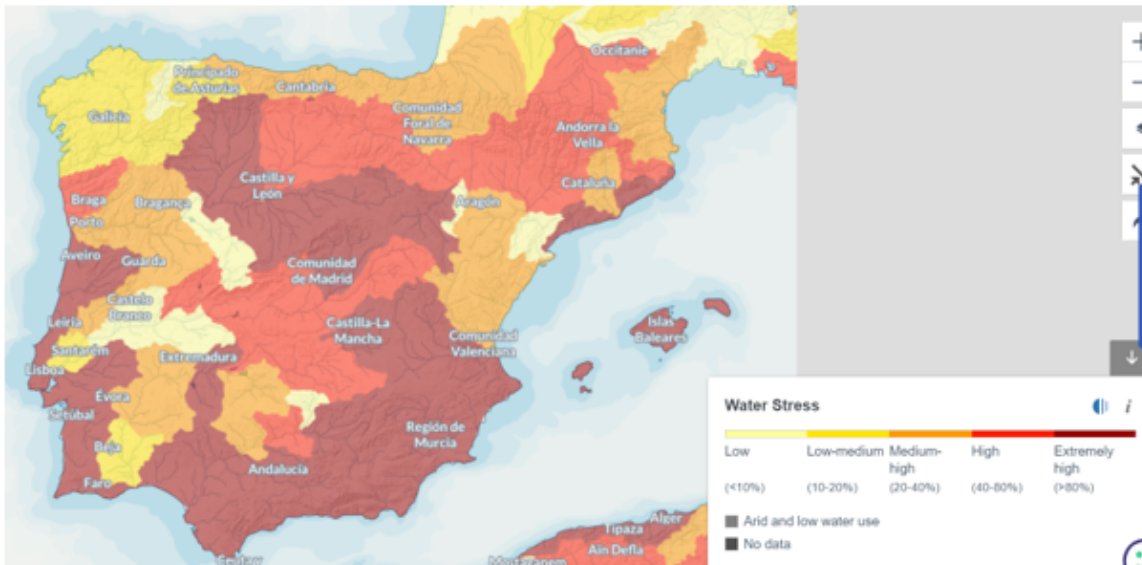
The undertaking may provide additional explanatory information to contextualize its water withdrawals or consumption. For example, the undertaking may highlight if rainwater is collected and used as a replacement of tap water or if water is discharged to other parties for cascading use.

Below is an example of how undertakings may present the quantitative information on their withdrawals, discharges and consumption of water divided by site location.

	Water withdrawal (e.g. m3)	Water consumption (e.g. m3) <i>(if applicable)</i>
All sites		
Sites in areas with water stress		

Guidance on how to know if operating in an area of high water stress

To know if the undertaking operates in an area of high water stress, you can consult the regional water authorities of the places you operate on, to understand their assessment of the water resources for that specific location. Alternatively, you can also consult public available and free tools that map water scarcity globally. One of such tools is [WRI's Aqueduct Water Risk Atlas](#). Through this tool you can consult the Water stress baseline for different river basins globally. As an illustration, the picture below shows a map of the main Iberian river basins and their water stress classification according to WRI Aqueduct.



You can observe several of the water basins in the Peninsula and their water stress classification. Most of the southern part of the peninsula is an area of very high water stress - with the exception of the Guadiana basin (in yellow). So, if you have operations within the Guadalquivir basin (Andalusia region, very high level water stress) you would have to disaggregate your water consumption for that region/water basin. But if your operation is located within the southern part of the Guadiana river basin (low water stress) then that would not be necessary.

Metric B7 - Resource use, circular economy and waste management

Guidance on circular economy principles

When disclosing information on its products, material use, and waste management, the undertaking may provide information in relation to the circular economy principles. Circular economy principles are articulated in the paragraphs below. The key principles outlined by Ellen Macarthur Foundation are shown underlined while the key principles considered by the European Commission are shown in *italic*.

Eliminate waste and pollution – which can be done through process improvements but also design considerations at the level of the *usability, reusability, repairability, disassembly and remanufacturing*;

Circulate products and materials (at their highest value) – reusability and *recycling* is key for product circulation, but this is enhanced if special consideration for circularity is given at design phase for issues such as usability, reusability, repairability, remanufacturing and disassembly. Factors such as the incorporation of bio-materials and their *recirculation by the biological cycle* can also be considered – for example, using biodegradable crop covers instead of plastics in agriculture.

Regenerate nature – whenever possible, human activities should seek to regenerate nature and improve or restore key ecological functions (drainage, habitat provision, thermal regulation, etc) that may have been lost due to previous human activities.

Guidance on the rate of recycled content in the products and packaging

When compiling the rate of recycled content – that is, inputs into the process that have originated from recycled materials - in its products (produced goods or materials) and packaging the undertaking may use as denominator the total weight of materials that are recycled used in products and packaging (during the reporting period) divided by the total weight of materials in products and packaging (during the reporting period).

Guidance on the rate of recyclable contents in the products and packaging

When compiling the rate of recyclable content – this is, materials that can be technically recycled - the undertaking may use as denominator the total weight of materials that are recyclable used in products and packaging (during the reporting period) divided by the total weight of materials in products and packaging (during the reporting period).

Guidance on how to identify manufacturing and/or packaging processes

To identify manufacturing and/or packaging processes, the undertaking may refer to those activities that fall under "Section C - Manufacturing" and Section F "Construction" of Annex I to Regulation (EC) No 1893/2006⁵.

Guidance on total waste generation and waste diverted to recycle or reuse

When disclosing information on waste the undertaking may adopt the following tables.

	Waste generated (e.g. tonnes)		
	Total waste generated, of which:		
		<i>Waste diverted to recycle or reuse</i>	<i>Waste directed to disposal</i>
Non-hazardous waste			
Type of waste1			
Type of waste2			
...			
Hazardous waste			
Type of waste1			
...			

Examples of hazardous wastes which small businesses may generate include batteries, used oils, pesticides, mercury-containing equipment, fluorescent lamps, etc.

The undertaking may provide further breakdowns specifying further types of non-hazardous and hazardous wastes. In doing so it may consider the list of waste descriptions from the European Waste Catalogue.

Social Metrics

Metric B 8 – Workforce – General characteristics

Full-time equivalent (FTE) is an employee's scheduled hours divided by the employer's hours for a full-time workweek.

Head count is the total number of people employed by the undertaking at a given time.

Guidance on how to present information

The following table is a suggestion for presenting information on employees by type of employment contract.

Type of contract	Number of Employees (full-time equivalents or head count)
Temporary contract	
Permanent contract	
Total Employees	

⁵ [L_2006393EN.01000101.xml \(europa.eu\)](https://eur-lex.europa.eu/eli/L/2006/393/EN/01000101.xml)

The following table is a suggestion for presenting information on employees by gender.

Gender	Number of Employees (full-time equivalents or head count)
Male	
Female	
Other	
Not reported	
Total Employees	

In some European Member States it is possible for persons to legally register themselves as having a third gender, often neutral, which is categorised as “other” in the table above. 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. “Not reported” category refers to employees who do not disclose gender identity.

The following table is a suggestion for presenting information on employees by countries.

Country	Number of Employees (full-time equivalents or head count)
Country A	
Country B	
Country C	
Country D	
Total Employees	

The definitions and types of employment contracts may 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.

Metric B 9 – Workforce - Health and Safety

Guidance on the rate of recordable work-related accidents

In order to calculate the rate of recordable work-related accidents, the formula below should be used:

$$\frac{\text{Number of work related accidents in the reporting year}}{\text{Total number of hours worked in a year by all employees}} \times 200,000$$

The rate indicates the number of work-related accidents per 100 full-time workers over one year timeframe, based on the assumption that one full-time worker works 2,000 hours per year. 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.

Example:

Company A reported 3 work-related accidents in the reporting year. Company A has 40 employees with a total number of 80,000 hours (40 x 2,000) worked in a year.

The rate of recordable work-related accidents is: $3 / 80,000 \times 200,000 = 7.5$

Guidance on number of fatalities as a result of work-related injuries and work-related ill health

Work-related injuries and work-related ill health arise from exposure to dangers at work.

In case of teleworking, injuries and ill health are work-related if the injury or ill health is directly related to the performance of work rather than the general home environment.

In case of injuries and ill health that occur while a person is travelling for work purposes, these are work-related if the employee was performing work activities in the interest of the employer at the time of the injury or ill health. Incidents which arise during travel, outside of the undertaking’s responsibility (i.e.,

regular commuting to and from work), are subject to the applicable national legislation that regulates their categorisation as to whether these are work-related or not.

Mental illness is work-related if it has been notified voluntarily by the person concerned and it is supported by an opinion from a licensed healthcare professional that states that the illness is work-related. Health problems resulting from smoking, drug and alcohol abuse, physical inactivity, unhealthy diets, and psychosocial factors unrelated to work are not considered work-related.

The undertaking may present separately the fatalities for work-related injuries and those resulting from work-related ill health.

Metric B 10 – Workforce – Remuneration, collective bargaining, and training

Guidance on remuneration: ratio of the entry level to the minimum wage

Significant proportion of employees refers to the majority of employees in the undertaking, without considering interns or apprentices.

Entry level wage refers to the full-time wage in the lowest employment category. The wages of interns and apprentices shall not be considered when identifying the entry level wage of the undertaking.

Minimum wages refer to the minimum compensation for employment per hour, or other unit of time, allowed under law. Depending on the country, the minimum wage might be set directly by law, or through collective bargaining agreements. The undertaking shall refer to the applicable one for the country it reports on (i.e., either set directly by law, or through a collective bargaining agreement).

$$Ratio = \frac{\text{Entry level wage}}{\text{Minimum wage}}$$

Guidance on remuneration: percentage gap between female and male employees

This metric is addressing the principle of gender equality whereby equal pay for equal work is established. The pay gap is defined as the difference of average pay levels between female and male employees, expressed as a percentage of the average pay level of male employees.

In order to calculate this metric, all employees shall be included in the calculation. In addition, there should be two separate average pay calculations for female and male. See the formula below:

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

Depending on the undertaking's remuneration policies, the gross pay refers to 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.

The gross pay is the sum of all the applicable elements listed above.

The average gross hourly pay is the weekly/annual gross pay divided by the average hours worked per week/year.

Example:

Company A has X male employees and Y female employees. Male employees gross hourly pay is Euro 15 and female gross hourly pay is Euro 13.

The average gross hourly pay level of male employees is the sum of all their gross hourly pays divided by the total number of male employees. The average gross hourly pay level of female employees is the sum of all their gross hourly pays divided by the total number of female employees.

The percentage pay gap between male and female employees is:

$$\frac{15 - 13}{15} \times 100 = 13.3\%$$

Guidance on collective bargaining coverage

The employees covered by collective bargaining agreements are those individuals to whom the undertaking is obliged to apply the agreement. If an employee is covered by more than one collective bargaining agreement, only needs to be counted once. If none of the employees are covered by a collective bargaining agreement, the percentage is zero.

The employees covered by collective bargaining agreements are those individuals to whom the undertaking is obliged to apply an agreement.

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

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

The information required by this Disclosure Requirement may be reported as coverage rates: whether the collective bargaining coverage is between 0-19%, 20-39%, 40-59%, 60-79% or 80-100%.

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.

Business Conduct Metrics

Metric B 12 – Convictions and fines for corruption and bribery

Corruption and bribery fall under the Business Conduct sustainability matter.

Under paragraph 41, the undertakings report on number of convictions and number of fines for violation of anti-corruption and anti-bribery laws.

Guidance on convictions

Convictions for violation of anti-corruption and anti-bribery laws refer to any final decision of a criminal court against an individual in respect of a criminal offence related to corruption and bribery, to the extent that these decisions are entered in the criminal record of the convicting Member State.

Guidance on fines

Fines for violation of anti-corruption and anti-bribery laws refer to mandatory monetary penalty, as a result of violations of anti-corruption and anti-bribery laws, that are imposed by a court, commission, or other government authority and are paid to a public treasury.

Business Partners Module: Guidance

This Guidance is intended to support the preparation of the Metrics in the Business Partner Module.

Governance- Business Model Metrics

Disclosure BP 1 – Revenues from certain sectors

According to par. 73 the undertaking shall declare if it is active in the following sectors specifying the corresponding revenues:

- i. controversial weapons such as anti-personnel mines, cluster munitions, chemical weapons and biological weapons. Controversial weapons are prohibited by international law because of the indiscriminate damage they can cause to people including serious bodily harm and death also after the end of the military conflicts.
- ii. cultivation and production of tobacco;
- iii. fossil fuel (coal, oil and gas) sector (i.e., revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade of fossil fuels)
- iv. chemicals production i.e., the activities listed under Division 20.2 of Annex I to Regulation (EC) No 1893/2006. These activities are "Manufacture of pesticides and other agrochemical products".

Certain criteria regarding those sectors have been defined in certain legislations applicable to the financial sector, hence those sectors have been identified by lenders and investors as carrying sustainability risks.

Disclosure BP 2 – Responsibilities in relation to sustainability matters

The governance body refers to the highest decision-making authority in a company. Depending on the jurisdiction the company is located and the type of legal entity, the governance body can have a different format.

The gender diversity ratio of the governance body is calculated as an average ratio of female to male board members.

$$\text{Gender diversity ratio} = \frac{\text{the number of female members}}{\text{the number of male members}}$$

Example: a governance body is composed of 6 members including 3 women. The gender diversity ratio is 1 – for every one female member there is one male member.

Environmental Metrics

Disclosure BP 3 – GHG emissions reduction target

A GHG emission reduction target is a commitment to reduce the undertaking's GHG emissions in a future year as compared with the GHG emissions measured in a base year. Emission reductions may be achieved, for instance, through electrification, renewable electricity, sustainable products development, etc. Removals and avoided emissions do not count as emission reductions. Disclosure BP 3 requires an undertaking to disclose GHG emission reduction targets for its Scope 1 and 2 emissions.

A base year is a reference to a past year against which to compare the undertaking's current emissions. In general, the base year should be a recent and representative year for GHG emissions for which there are verifiable data.

The target year, is the year in the future you aim at achieving a certain absolute or percentage amount of GHG emission reductions. It should cover a period between one to three years from the base year for a short-term target. Longer term targets may also be included, for instance, covering periods of twenty to thirty years (e.g., 2040 or 2050). Undertakings are encouraged to include target values for the near-term year 2030 at the least, and, if feasible, also for the long-term year 2050. From 2030 onwards, it is suggested to update the base year and target year for GHG emission reduction targets after every five-year period.

To set a target, undertakings should consider the existing scientific evidence on GHG mitigation. The SBTi recommends a cross-sector target in GHG emissions reduction of -42% by the year 2030, and -

90% by the year 2050 (base year 2020). Specific pathways also exist by sector and may be considered by undertakings when setting their GHG emission reduction targets.

Disclosure BP 4 – Transition plan for climate change mitigation

A climate transition plan is a set of present and future actions to align the undertaking's business model, strategy and operations with the key overarching global objective of limiting global warming to 1.5°C and underpinned by an GHG reduction target compatible with that goal. The importance of having a transition plan in place lies in the possibility to understand the means by which the undertaking will move towards a low-carbon economy and to keep track of the progress made. A transition plan serves as an accountability and transparency mechanism that prompts undertakings to create credible pathways for mitigating climate change through their actions.

A credible transition plan should: a) identify clear responsibilities and roles; b) be integrated in the undertaking's business strategy and financial planning; c) include information on the decarbonisation levers and pathways as well as quantifiable indicators that can be monitored for defined timeframes; d) allow for regular reviewing and updating after stakeholder consultations, when appropriate; e) cover the entirety of own operations and, to the largest possible extent possible, the value chain, or provide an explanation as to any limitation.

Disclosure BP 5 – Physical Risks from climate change

Climate-related physical risks arise from the effects that climate change has on the undertaking. They can be categorized into Acute physical risks which arise from particular events (such as droughts, floods, extreme precipitations and wildfires) and Chronic physical risks which arise from longer-term changes in the climate. Physical risks are a function of the climate-related hazard, the exposure of the undertaking's assets and activities towards these hazards and how sensitive they are. Examples of climate-related hazards are: heat waves, increased frequency of extreme weather events, sea level rise, glacial lake outburst, change in precipitation and wind patterns. Climate-related physical risks can be identified and modelled by using climate scenarios that consider high emissions trajectories, such as IPCC SSP5-8.5.

Disclosure BP 6 – Hazardous waste and radioactive waste ratio

Nuclear waste can be present in a variety of situations, from smoke detectors to sludges from naturally occurring radioactive materials. It can be present in special equipment used by industry, research facilities, medical appliances and other objects.

The undertaking may disclose the share of radioactive waste, calculated as a percentage of the total amount of hazardous waste as reported in the Basic Module B7.

Below is an example of the radioactive waste ratio calculation:

$$\text{Radioactive waste ratio} = \frac{\text{Radioactive waste (t)}}{\text{Hazardous waste (t)}} \times 100$$

Social Metrics

Disclosure BP 7 – Alignment with internationally recognized instruments

The undertaking discloses how it manages actual and potential negative impacts on people's human rights. This means that the undertaking shall disclose whether it has policies in place that commits it to respecting human rights, including labour rights, as defined by 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. Such policies can take many forms and they have no definitive template or structure. Efforts to implement such policies can include the provision of specific training on human rights to the employees and efforts to map supply chains in order to proactively look for issues related to child labour or forced labour particularly in higher risk contexts.

Human rights in the workplace include the right to a safe and healthy working environment; freedom of association and the right to collective bargaining; the elimination of discrimination, including the right to equal pay for work of equal value; as well as the elimination of child labour and forced labour.

International instruments such as treaties, conventions, principles or guidelines are the common reference for the undertaking to develop policies related to human rights, refer to the CSRD Article 29 b 2 b). These policies could represent a signal to internal and external stakeholders that an undertaking is embedding human rights into its business operations and relations.

Disclosure BP 8 – Processes to monitor compliance and mechanisms to address violations

A human rights policy sets out how the undertaking respects human rights by having processes in place to identify, prevent, mitigate and account for how the undertaking addresses its actual or potential adverse human rights impacts. Examples of mechanisms to report violations can be the provision of channels (e.g. grievance, complaints or whistleblower mechanisms) for employees to raise concerns or complaints related to human rights including labour rights.

Disclosure BP 9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles (including the principles and rights set out in the 8 fundamental conventions of the ILO Declaration and the International Bill of Human Rights)

If applicable, the undertaking shall disclose whether there have been any violations of human rights during the reporting year. The UN Guiding Principles on Business and Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work and the OECD Guidelines for Multinational Enterprises provide comprehensive overview and lists of human rights.

Disclosure BP 10 – Workforce – Work-life balance

The undertaking discloses the percentage separately for those employees:

- i. who can take family-related leave in the reporting year, with a breakdown by gender; and
- ii. who used family-related leave in the reporting year, with a breakdown by gender.

For the purpose of this calculation, the same methodology used for the social metrics in the basic module should be used for consistency meaning that employees can be counted in full-time equivalents or head count.

Family-related leave includes maternity leave, paternity leave, adoption leave, parental leave, dependents leave and carers' leave. The definition and scope of the family-related leave is defined by the national laws.

Disclosure BP 11 – Number of apprentices

The undertaking shall disclose the number of apprentices in the reporting period based on the applicable national definitions and schemes of apprentices.

The number of apprentices refers to the number of apprentices who work in the undertaking during the reporting year. For example, if the undertaking has a December year end, an apprentice that starts the contract in year x1 and finishes in year x2 will be included in this disclosure in year x1 and year x2.

Appendix A: Defined terms

This appendix is integral part of the Standard.

Defined term	Definition
Actions	Actions refer to (i) actions and actions plans (including transition plans) that are undertaken to ensure that the undertaking delivers against targets set and through which the undertaking seeks to address material impacts, risks and opportunities; and (ii) decisions to support these with financial, human or technological resources.
Affected communities	People or group(s) living or working in the same area that have been or may be affected by a reporting undertaking's operations or through its upstream and downstream value chain. Affected communities can range from those living adjacent to the undertaking's operations (local communities) to those living at a distance. Affected communities include actually and potentially affected indigenous peoples.
Apprenticeships	Apprenticeships are understood as formal vocational education and training schemes that (a) combine learning in education or training institutions with substantial work-based learning in companies and other workplaces, (b) lead to nationally recognised qualifications, (c) are based on an agreement defining the rights and obligations of the apprentice, of the employer and, where appropriate, the vocational education and training institution, and (d) with the apprentice being paid or otherwise compensation for the work-based component.
Biodiversity	The variability among living organisms from all sources including, inter alia, terrestrial, freshwater, marine and other aquatic ecosystems and the ecological complexes of which they are part.
Biodiversity-sensitive Area	Biodiversity-sensitive areas include: Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas ('KBAs'), as well as other protected areas, as referred to in Appendix D of Annex II to Commission Delegated Regulation (EU) 2021/2139.
Business Conduct	The following matters are collectively referred to as 'business conduct or business conduct matters': (a) business ethics and corporate culture, including anti-corruption and anti-bribery, the protection of whistleblowers, and animal welfare; (b) the management of relationships with suppliers, including payment practices, especially with regard to late payment to small and medium-sized undertakings. (c) activities and commitments of the undertaking related to exerting its political influence, including its lobbying activities.
Collective bargaining	All negotiations which take place between an employer, a group of employers or one or more employers' organisations, on the one hand, and one or more trade unions or, in their absence, the representatives of the workers duly elected and authorised by

Defined term	Definition
	them in accordance with national laws and regulations, on the other, for: i) determining working conditions and terms of employment; and/or ii) regulating relations between employers and workers; and/or regulating relations between employers or their organisations and a workers' organisation or workers' organisations.
Corruption	Abuse of entrusted power for private gain, which can be instigated by individuals or organisations. It includes practices such as facilitation payments, fraud, extortion, collusion, and money laundering. It also includes an offer or receipt of any gift, loan, fee, reward, or other advantage to or from any person as an inducement to do something that is dishonest, illegal, or a breach of trust in the conduct of the undertaking's business. This can include cash or in-kind benefits, such as free goods, gifts, and holidays, or special personal services provided for the purpose of an improper advantage, or that can result in moral pressure to receive such an advantage.
Consumers	Individuals who acquire, consume or use goods and services for personal use, either for themselves or for others, and not for resale, commercial or trade, business, craft or profession purposes.
Classified information	EU classified information as defined in Council Decision of 23 September 2013 on the security rules for protecting EU classified information (2013/488/EU) or classified by one of the Member States and marked as per Appendix B of that Council decision. EU classified information means any information designated by a EU security classification, of which the unauthorised disclosure could cause varying degrees of prejudice to the interests of the European Union or of one or more of the Member States. Classified information may be classified according to four levels: top secret, secret, confidential, restricted (based on the definition from the Council Decision).
Circular economy principles	The European circular economy principles are usability; reusability; repairability; disassembly; remanufacturing or refurbishment; recycling; recirculation by the biological cycle; other potential optimisation of product and material use.
Climate-change adaptation	The process of adjustment to actual and expected climate change and its impacts.
Climate-related physical risks	Risks resulting from climate change that can be event-driven (acute) or from longer-term shifts (chronic) in climate patterns. Acute physical risks arise from particular hazards, especially weather-related events such as storms, floods, fires or heatwaves. Chronic physical risks arise from longer-term changes in the climate, such as temperature changes, and their effects on rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity.
Direct GHG emissions (Scope 1)	Direct GHG emissions from sources that are owned or controlled by the undertaking.

Defined term	Definition
Employee	An individual who is in an employment relationship with the undertaking according to national law or practice.
End users	Individuals who ultimately use or are intended to ultimately use a particular product or service.
Family related leave	<p>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 Standard, these concepts are defined as:</p> <p>(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);</p> <p>(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;</p> <p>(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;</p> <p>(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.</p>
Grievance mechanism	<p>Any routinized, state-based or non-state-based, judicial or non-judicial processes through which stakeholders can raise grievances and seek remedy. Examples of state-based judicial and non-judicial grievance mechanisms include courts, labour tribunals, national human rights institutions, National Contact Points under the OECD Guidelines for Multinational Enterprises, ombudsperson offices, consumer protection agencies, regulatory oversight bodies, and government-run complaints offices. Non-state-based grievance mechanisms include those administered by the undertaking, either alone or together with stakeholders, such as operational-level grievance mechanisms and collective bargaining, including the mechanisms established by collective bargaining. They also include mechanisms administered by industry associations, international organisations, civil society organisations, or multi-stakeholder groups. Operational-level grievance mechanisms are administered by the organisation either alone or in collaboration with other parties and are directly accessible by the organisation's stakeholders. They allow for grievances to be identified and addressed early and directly, thereby preventing both harm and grievances from escalating. They also provide important feedback on the effectiveness of the organisation's due diligence from those who are directly affected. According to UN Guiding Principle 31, effective grievance mechanisms are legitimate, accessible, predictable, equitable, transparent, rights-compatible, and a source of continuous learning. In addition to these criteria, effective operational-level grievance mechanisms are also based on engagement and dialogue. It can be more difficult for the</p>

Defined term	Definition
	organisation to assess the effectiveness of grievance mechanisms that it participates in compared to those it has established itself.
Greenhouse Gases (GHG)	For the purposes of this Standard, GHGs are the six gases listed in the Kyoto Protocol: carbon dioxide (CO ₂); methane (CH ₄); nitrous oxide (N ₂ O); Nitrogen trifluoride (NF ₃); hydrofluorocarbons (HFCs); perfluorocarbons (PFCs); and sulphur hexafluoride (SF ₆).
Governance	The governance is the system of rules, <u>practices</u> and processes by which a company is directed and controlled.
<u>Gross emissions</u>	<u>Gross emissions are total emissions before deductions for carbon removals and without any adjustments related to carbon credits or avoided emissions.</u>
Hazardous waste	Waste which displays one or more of the hazardous properties listed in Annex III of Directive 2008/98/EC of the European Parliament and of the Council ¹⁷ on waste.
Incident	A legal action or complaint registered with the undertaking or competent authorities through a formal process, or an instance of non-compliance identified by the undertaking through established procedures. Established procedures to identify instances of non-compliance can include management system audits, formal monitoring programs, or grievance mechanisms
Indirect GHG emissions (Scope 2)	Indirect emissions are a consequence of the operations of the undertaking but occur at sources owned or controlled by another company. Scope 2 GHG emissions are indirect emissions from the generation of purchased or acquired electricity, steam and heat, or cooling consumed by the undertaking.
Land-use change	The human use of a specific area for a <u>certain purpose</u> (such as residential; agriculture; recreation; industrial, etc.). Influenced by land cover (grass, asphalt, trees, bare ground, water, etc). Land-use change refers to a change in the use or management <u>of land</u> by humans, which may lead to a change in land cover.

Nature-oriented area	<p>A “nature-oriented area” is an area dedicated primarily to nature preservation or restoration. They can be located on-site and include elements like roof, façade, water drainages designed, to promote biodiversity. Nature-oriented areas can also be located outside the organisation site provided that the area is owned or (co-)managed by the organisation and is primarily dedicated to promoting biodiversity.</p> <p>(Adapted from: Source: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009R1221-20230712)</p>
Own workforce/own workers	<p>Employees who are in an employment relationship with the undertaking ('employees') and non-employees who are either individual contractors supplying labour to the undertaking ('self-employed people') or people provided by undertakings primarily engaged in 'employment activities' (NACE Code N78).</p>

Defined term	Definition
Pay	<p>The ordinary basic or minimum wage or salary and any other remuneration, whether in cash or in kind which the worker receives directly or indirectly ('complementary or variable components'), in respect of his/her employment from his/her employer. 'Pay level' means gross annual pay and the corresponding gross hourly pay. 'Median pay level' means the pay of the employee that would have half of the employees earn more and half less than they do</p>
Policy	<p>A set or framework of general objectives and management principles that the undertaking uses for decision-making. A policy implements the undertaking's strategy or management decisions related to a material sustainability matter. Each policy is under the responsibility of defined person(s), specifies its perimeter of application, and includes one or more objectives (linked when applicable to measurable targets). A policy is implemented through actions or action plans.</p> <p>For example, 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.</p> <p>If the undertaking has not yet formalised a policy but has implemented actions or defined targets through which the undertaking seeks to address material sustainability topics and subtopics, it may disclose them.</p>

<p>Recordable work-related injury or ill health</p>	<p>Work-related injury or ill health that results in any of the following: death, days away from work, restricted work or transfer to another job, medical treatment beyond first aid, or loss of consciousness; or significant injury or ill health diagnosed by a physician or other licensed healthcare professional, even if it does not result in death, days away from work, restricted work or job transfer, medical treatment beyond first aid, or loss of consciousness. Recordable means diagnosed by a physician or other licensed health care professionals. Injuries that do not require medical treatment beyond first aid are generally not recordable.</p>
<p>Recycling</p>	<p>Any recovery operation by which waste materials are reprocessed into products, materials or substances whether for the original or other purposes. It includes the reprocessing of organic material but does not include energy recovery and the reprocessing into materials that are to be used as fuels or for backfilling operations</p>
<p>Renewable Energy</p>	<p>Energy from renewable non-fossil sources, namely wind, solar (solar thermal and solar photovoltaic) and geothermal energy, ambient energy, tide, wave and other ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas, and biogas⁶.</p>

⁶ Article 2(1) 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 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 (OJ L 328, 21.12.2018, p. 82).

Defined term	Definition
Sealed area	<p>A sealed area means any area where the original soil has been covered (such as roads) making it impermeable. This non-permeability can create environmental impacts.</p> <p>(Source: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009R1221-20230712)</p>
Sensitive information	<p>Sensitive information as defined in Regulation (EU) 2021/697 of the European Parliament and of the Council of 29 April 2021 establishing the European Defence Fund.</p> <p>Sensitive information means information and data, including classified information, that is to be protected from unauthorised access or disclosure because of obligations laid down in Union or national law or in order to safeguard the privacy or security of a natural or legal person.</p>
Targets	Measurable, outcome-oriented and time-bound goals that the SME aims to achieve in relation to material sustainability topics and subtopics. They may be set voluntarily by the SME or derive from legal requirements on the undertaking.
Training	Initiatives put in place by the undertaking aimed at the maintenance and/or improvement of skills and knowledge of its own workers. It can include different methodologies, such as on-site training, and online training.
Value Chain	<p>The full range of activities, resources and relationships related to the undertaking's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships the undertaking uses and relies on to create its products or services from conception to delivery, consumption and end-of- life. Relevant activities, resources and relationships <u>include</u>: a) those in the undertaking's own operations, such as human resources; b) those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and c) the financing, geographical, geopolitical and regulatory environments in which the undertaking operates. Value chain includes actors upstream and downstream from the undertaking. Actors upstream from the undertaking (e.g., suppliers) provide products or services that are used in the development of the undertaking's products or services. Entities downstream from the undertaking (e.g., distributors, customers) receive products or services from the undertaking.</p>
Wage	Gross wage, excluding variable components such as overtime and incentive pay, and excluding allowances unless they are guaranteed
<u>Water consumption</u>	<u>The amount of water drawn into the boundaries of the undertaking (or facility/facilities) and not discharged back to the water environment or a third party over the course of the reporting period.</u>

Defined term	Definition
<u>Water withdrawal</u>	<u>The sum of all water drawn into the boundaries of the undertaking (or facility/facilities) from all sources for any use over the course of the reporting period.</u>
Work-life balance	Satisfactory state of equilibrium between an individual's work and private life. Work-life balance in a broader sense encompasses not only the balance between work and private life given family or care responsibilities, but also time allocation between time spent at work and in private life beyond family responsibilities.
Worker in the value chain	An individual performing work in the value chain of the undertaking, regardless of the existence or nature of any contractual relationship with the undertaking. In the ESRS, the scope of workers in the value chain <u>include</u> all workers in the undertaking's upstream and downstream value chain who are or can be materially impacted by the undertaking. This includes impacts that are connected to the undertaking's own operations, and value chain, including through its products or services, as well as through its business relationships. This includes all workers who are not in the scope of 'Own Workforce' ('Own Workforce' includes people who are in an employment relationship with the undertaking ('employees') and non-employees who are either individual contractors supplying labour to the undertaking ('self-employed people') or people provided by undertakings primarily engaged in employment activities. (NACE Code N78)