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EFRAG
Mr Patrick de Cambourg (SRB Chair)
35 Square de Meeûs
B-1000 Brussels (fifth floor)
Belgium

Comments on ESRS LSME Exposure Draft – EFRAG Public Consultation

Dear Mr. Cambourg,

on behalf of the Austrian Financial Reporting Advisory Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on ESRS LSME Exposure Draft – EFRAG Public Consultation.

Principal authors of this comment letter were Monika Brom, Christoph Krischanitz, Gerhard Prachner, Claudia Schönhart, and Alfred Wagenhofer (chair). In order to ensure a balanced Austrian view in the consultation, the professional background of the authors is broad.

Best regards,

Romuald Bertl
Chairman

PART A. Key questions about ESRS LSME ED
A.1): Methodological approach and general principles

Q1) Do you agree with the approach [decision tree] adopted to develop LSME ED as a simplification of the content of ESRS Set 1?

[Disagree]

Explanation:

We strongly believe that the LSME ED is too long, complex, and detailed for SMEs to apply. The LSME ED requires the disclosure of many data points that are not explicitly required by the CSRD (in Art. 19a (6) and Art. 29c). These requirements should be removed. Indeed, it is always possible for a listed SME to provide additional disclosures on an entity-specific or voluntary basis.

Therefore, we suggest a very different approach to the development of LSME standards: Rather than starting with ESRS Set 1 and reducing disclosures (by 43 percent of the disclosures required under Set 1), we recommend to follow a bottom-up approach based on the VSME ED: Based on the information needs of other undertakings and financial institutions, the VMSE ED is built on a modular structure including a Basic Module, a Narrative-PAT Module, and a Business Partners Module. Listed SMEs differ from non-listed SMEs in that way that they are public interest entities, resulting in a demand for sustainability information from the investors or the public. Therefore, we propose to add to these modules, or design a fourth module, to satisfy this additional information demand.

In fact, our overall assessment of the LSME ED is that it looks like a "better" version of the ESRS Set 1 standards, both with respect to the quantity of the requirements and the understandability of the text.

Q2) Do you agree with this approach on EU datapoints [satisfying information needs of financial market participants to comply with their regulations]?

[Disagree]

Explanation:

We strongly recommend to better address information needs arising from EU Taxonomy (Regulation 2020/852).

Q3) Interoperability with ISSB standards not applicable – Do you agree with this approach?

[Agree]

Q4) Do you agree with this approach taken on entity-specific disclosure?

[Disagree]

Explanation:

In order to fulfil the value chain cap function, we suggest differentiating disclosure requirements according to typical (sets of) sectors, rather than referring to entity-specific disclosures that are not included in the standard and may lead to uncertainty and diversity in practice. We note, though, that this is difficult as the sector-specific full standards are being developed and, thus, are not yet available. Therefore, we urge EFRAG to state its policy regarding the LSME standard after sector-specific (full) EFRS will be available.

Q5) Materiality – Do you agree with this approach?

[Agree]

Explanation:

Materiality approach in the LSME ED: LSME ED para. 5 is more general and refers to positive and negative impacts as well as to opportunities and risks, while LSME D para. 7 focuses on negative impacts and risks. This needs to be clarified and/or aligned.

Q6) *Transitional provision– Do you agree with this approach taken on phase-ins?*

[Disagree]

Explanation:

We note that DR S1-6 and DR S1-9 have additional phase-in provisions compared to ESRS Set 1. We generally support such provisions but question their effect on the value chain cap function of the LSME ED. Large undertakings might already need such information before the LSME ED requires them.

Q7) *Do you agree that the threshold of 50 employees should be applied to all undertakings in scope?*

[No comment]

Q8) *Do you agree with this “report if you have” approach?*

[Agree]

Explanation:

While we agree with the "report if you have" approach, further clarification of the wording in the LSME ED is needed. If "if applicable" is equivalent to "where applicable" and "report if you have", we strongly recommend using the same wording instead of three.

A.2): Value chain implications of ESRS LSME ED and VSME ED [identical to PART 3 of VSME ED Questionnaire]

Q9.1) *Do you agree with the approach taken by EFRAG on the value chain cap?*

[Disagree]

Q9.1 optional) *If you do not agree with the approach on the value chain cap, select the areas of disclosure for which you disagree with EFRAG conclusion.*

1. *SBM-1, SBM-3, IRO-1: for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRS reporting.*

[No comment]

2. *Policies, Actions and Targets (PAT): for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRS reporting*

[No comment]

3. *Climate Transition plan (Section 3 Actions – AR 6 and AR11): for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRS reporting.*

[No comment]

4. *GHG emissions (E1-2 GHG emissions – Scope 3): for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRS reporting.*

We believe Scope 3 emissions, particularly downstream, will involve an undue burden to LSME.

5. *GHG removal (E1-3 GHG removals): No undue effect on LSMEs expected from ESRS reporting. 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.*
[No comment]
6. *Substances of concern and substances of very high concern (E2-2 Substances of concern and substances of very high concern): No undue effect on LSMEs expected from ESRS reporting. 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.*
[No comment]
7. *Resource inflows (E5-1 Resource inflows): for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRS reporting.*
[No comment]
8. *Entity specific disclosures: For both EDs: Perspective 1: Possible trickle-down effect under specific arrangements to allow Set 1 preparers to cover material sector and/or to disclose entity-specific information including value chain. Perspective 2: not applicable, as the data-point cannot be defined (due to entity-specific nature of the disclosure).*

We note that the information demands can be very different depending on the sector in which the SME operates. We expect a "trickle-in" of sector-specific disclosures in both the LSME ED and the VSME ED. Since a main purpose of the LSME ED is the value chain cap, optional disclosures ("may") in the LSME ED make no sense. Undertakings can provide additional disclosures on a voluntary basis without restrictions. For the LSME ED to fulfil the function of the value chain cap, we suggest differentiating the disclosure requirements according to typical (sets of) sectors, rather than referring to entity-specific disclosures, which are not included in the LSME ED and may lead to uncertainty and diversity in practice. Given this and given that the LSME ED takes an individual reporting perspective, we expect that the LSME ED may not protect SMEs from data requests from Set 1 preparers.

Despite the intended value chain cap function of the LSME ED, sector-specific standards combined with sector-agnostic requirements are needed rather than referring to entity-specific disclosures that are not included in the LSME ED. The current version of the LSME ED does not sufficiently address the specificities of SMEs, while some disclosure requirements are too sector-specific, e.g., substances of high concern.

Depending on EFRAG's approach of how to include sector-specific information (presumably excerpts from the forthcoming sector-specific ESRS), entity-specific disclosures could become less of a burden.

Q9.2. Please provide other comments on the value chain cap, if any.

Regarding LSME ED para. 66, we suggest deleting the last sentence so as not to further limit the ability to use data from other reports. We also suggest adding "report" as an alternative to "sustainability statement" and putting "sustainability" in parentheses, as entities may also refer to environmental reports/statements of other undertakings. In our understanding, para. 66 should read as follows:

“The undertaking may rely on and refer to information contained in the ESRS sustainability statement of an actor in its value chain when such an actor publishes mandatory ESRS sustainability statement, if that statement contains the information needed in the preparation of the undertaking's ESRS sustainability statement. If an actor in the value chain that does not prepare the mandatory ESRS sustainability statement nevertheless publishes sustainability information according to other standards or frameworks (such as any voluntary standard issued in the EU [VSME] or GRI Standards, or IFRS Sustainability Disclosures Standards, or EMAS), the undertaking may rely on and refer to information contained in that (sustainability) statement/report provided that such information is subject to at least the same level of assurance as its sustainability statement.”

A.3) Sector specific guidelines

Q10) Which of the options presented below should EFRAG follow to support SMEs in addressing and reporting their sector specific IROs?

- 1. Undertakings applying ESRS LSME ED should apply on a voluntary basis existing reporting practices, without specific EFRAG guidance.*
- 2. Undertakings applying ESRS LSME ED should apply, on a voluntary basis, the content of the future Sector ESRS for large undertakings.*
- 3. Undertakings applying ESRS LSME ED should apply on a voluntary basis sector specific guidelines and disclosures designed for listed SMEs, to be issued by EFRAG as a non-authoritative annex to the future sector-ESRS.*
- 4. Undertakings applying ESRS LSME ED should apply on a voluntary basis sector specific guidelines and disclosures applicable to both listed and non-listed SMEs, to be issued by EFRAG as a nonauthoritative annex to the future sector-ESRS.*

[Option 3]

PART B. Specific questions for each section of the ESRS LSME ED
B.1) Section 1: General Requirements

Q11) Please indicate your agreement or not with the proposed approach to simplify the general requirements, as included in Section 1 of ESRS LSME ED:

Impacts; Risks, and Opportunities

[No comment]

6.1 Presenting comparative information

[No comment]

6.2 Sources of estimation and outcome uncertainty

[No comment]

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

[No comment]

6.5 Reporting errors prior period

[No comment]

6.7 Matters in course of negotiation

[No comment]

Q12) If you agree with the substance of the requirements listed in Q11), please provide your suggested improvement, if any (please specify the relevant requirement).

Explanation:

Wording and readability: Is "if applicable" equivalent to "where applicable" and "report if you have"? If so, we strongly recommend using the same wording instead of three.

LSME ED para. 115: it is unclear whether connectivity/connected information is equivalent to "shall be coherent" or whether it has a different meaning.

Readability could be improved by combining the paragraphs and the corresponding AR paragraphs at the same place rather than in the body and appendix.

Moreover, the LSME ED would benefit from being restructured into more general and more specific topics.

B.2) Section 2: General Disclosures

Q13) Please indicate your agreement or not with the proposed approach to simplify ESRS Set 1 ESRS 1 General disclosures, as included in Section 2 of ESRS LSME ED:

DR-1 (BP 1) – General basis for preparation of the sustainability statement and DR-2 (BP 2) – Disclosures in relation to specific circumstances

[No comment]

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

[No comment]

DR-4 (GOV 2) – Due diligence

[No comment]

DR-5 (SBM 1) - Strategy, business model and value chain

[No comment]

DR-6 (SBM 2) - Interests and views of stakeholders

[No comment]

DR-7 (SBM-3) - Material impacts and risks and their interaction with strategy and business model

[No comment]

DR-8 (SBM-4) - Material opportunities and positive impacts as voluntary content

[No comment]

DR-9 (IR 1) - Processes to identify and assess material impacts and risks

[No comment]

Q14) If you agree with the substance of the requirements listed in Q13), please provide your suggested improvement, if any (please specify the relevant requirement).

[No comment]

Q15) Would you like to reinsert the “information about the resilience of the undertaking’s strategy”?

[No comment]

Q16) Information related to current financial effects and anticipated financial effects as separate datapoints – Do you agree with this approach?

[No comment]

B.3) Section 3: Policies, actions and targets

Q17) Please indicate your agreement or not with the proposed approach to simplify ESRS Set 1 disclosure requirements, as included in Section 3 of ESRS LSME ED:

MDR-P, MDR-A

[No comment]

Policies and Actions across ESRS E1-E5 and S1-S4

[No comment]

MDR-T

[No comment]

Targets across ESRS E1- E5 and S1-S4

[No comment]

Processes for engaging with own workforce, workers in the value chain, affected communities, consumers and end-users, and their representatives about impacts

[No comment]

Processes to remediate negative impacts and channels for own workforce, workers in the value chain, affected communities, consumers and end-users to raise concerns

[No comment]

Q18) If you agree with the substance of the requirements listed in Q17), please provide your suggested improvement, if any (please specify the relevant requirement).

[No comment]

B.4) Section 4: Environment

Q19) Please indicate your agreement or not with the proposed approach to simplify ESRS Set 1 metrics, as included in Section 4 of ESRS LSME ED:

DR E1-1 Energy consumption and mix

[No comment.]

DR E1-1 Energy intensity based on net revenue

[No comment.]

DR E1-2 Gross Scopes 1, 2, 3 and Total GHG emissions

[Disagree]

Explanation:

We believe that the quantification of gross scopes is too complex for SMEs.

DR E1-2 GHG intensity based on net revenue

[No comment.]

DR E1-3 GHG removals and GHG mitigation projects financed through carbon credits

[No comment.]

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

[No comment.]

DR E2-1 Pollution of air, water and soil

[No comment.]

DR E2-2 Substances of concern and substances of very high concern

[No comment.]

DR E3-1 Water consumption

[No comment.]

DR E4-1 Impact metrics related to biodiversity and ecosystems change

[No comment.]

DR E5-1 Resources inflows

[No comment.]

DR E5-2 Resources outflows

[No comment.]

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

[No comment.]

Q20) If you agree with the substance of the requirements listed in Q19), please provide your suggested improvement, if any (please specify the relevant requirement).

[No comment.]

Q21) In your view as SNCI or investor, should this ED anticipate detailed guidance on disclosure breakdown for financed emissions?

[No comment.]

Q22) Do you agree with the SNCIs having the option to use the proposed approach [LSME ED, E1-2 – GHG intensity based on net revenue and E3-1 – Water consumption] that allows the use of different metrics (rather than net revenues) to determine GHG emission intensity and water intensity?

[No comment.]

B.5) Section 5: Social

Q23) Please indicate your agreement or not with the proposed approach to simplify ESRS Set 1 metrics, as included in Section 5 of ESRS LSME ED:

DR S1-1 Characteristics of employees

[No comment]

DR S1-2 Characteristics of non-employees

[No comment]

DR S1-3 Collective bargaining coverage and social dialogue

[No comment]

DR S1-4 Adequate wages

[No comment]

DR S1-5 Social protection

[No comment]

DR S1-6 Training metrics

[No comment]

DR S1-7 Health and safety metrics

[No comment]

DR S1-8 Remuneration metrics

[No comment]

DR S1-9 Incidents and severe human rights impacts and incidents

[No comment]

DR S1-10 Diversity

[No comment]

S1-11 Work-life balance metrics

[No comment]

Q24) If you agree with the substance of the requirements listed in Q23), please provide your suggested improvement, if any (please specify the relevant requirement).

[No comment]

B.6) Section 6: Business conduct

Q25) Please indicate your agreement or not with the proposed approach to simplify ESRS Set 1 metrics, as included in Section 6 of ESRS LSME ED:

DR G1-1 – Management of relationships with suppliers

[No comment]

DR G1-2 Anti-corruption and anti-bribery

[No comment]

DR G1-3 – Political influence and lobbying activities

[Disagree]

Explanation:

We suggest omitting DR G1-3, as it is not suitable for SMEs.

Q26) If you agree with the substance of the requirements listed in Q25), please provide your suggested improvement, if any (please specify the relevant requirement).

[No comment]

Q27) Is there any information that the ESRS LSME ED should further cover?

[No comment]

Q28) Do you have any other comments?

[No comment]