BILAG

14. maj 2024
2024 - 5579
seajaj

Annex 1

The LSME standard
The Danish Government support the methodological approach and general principles used when drafting the ESRS LSME ED. We agree with the approach adopted by using the "decision tree" to develop LSME ED as a simplification of the content of ESRS Set 1. We welcome the reduction of datapoints in the LSME ED compared to ESRS Set 1 by approximately 50% while still maintaining the datapoints required by the SFDR etc. We find that the LSME ED overall is proportional and ensures that the standard is value-creating and executable for the reporting undertakings and the users of the disclosures.

Furthermore, we agree with the approach taken by EFRAG when applying the "value chain cap" where the LSME ED has been developed as a simplified version of the content required in ESRS for large undertakings. We support the priority to include only those requirements in the LSME ESRS ED that correspond to the information needs of users of sustainability statements of undertakings in scope of LSME.

However, we have two concerns that we would like to highlight regarding ESRS LSME ED:

1) Report if you have-approach
First, we are concerned about the "report if you have"-approach taken by EFRAG. EFRAG has chosen a "report if you have "-approach for several reporting areas which is not mentioned in the CSRD when defining the sustainability reporting requirements for LSME's. This approach means that a LSME shall disclose the related information if it has those elements in place. EFRAG argues that the absence of these elements would impair the relevance of the reporting information and would fail to meet the user's needs. Even so, we do not support this approach taken by EFRAG.

This approach goes beyond the mandate of the CSRD and could give the impression to LSME's that they need to disclose more information than required by the CSRD. This could lead to excessive administrative burdens on the LSME's. CSRD mandates the reporting requirements for the LSME's and those should be complied with.

Consequently, we propose that elements not mandated by the CSRD should be abandoned.

2) Unclear scope of application

Secondly, following the CSRD article 19a(9) LSME's are exempted from carrying out individual sustainability reporting if they as a subsidiary to a parent company are included in the parent's consolidated sustainability reporting.

If the LSME is the parent company of a large group, the LSME shall provide consolidated sustainability reporting following the ESRS Set 1 requirements as set out in article 29a(1) of the CSRD. In this case the LSME is also exempted from carrying out individual sustainability reporting according to article 29a(7) of the CSRD.Thus, the LSME will fall into one of the following three scenarios:

1. The LSME is a parent company of a large group and shall provide consolidated sustainability reporting in accordance with ESRS Set 1 and is exempt from individual sustainability reporting.
2. The LSME is a subsidiary of a parent company and is included in the parent's consolidated sustainability reporting and is exempted from individual sustainability reporting.
3. The LSME shall provide individual sustainability reporting only, also if the LSME is the parent company in a small group.

In LSME ED section 1 "General requirements" in chapter 4.1 Reporting undertaking and value chain, the approach is expanded to include the LSME's subsidiaries. We do not agree with this approach as this is beyond the mandate of the CSRD.

In the LSME ED provided by EFRAG, we find that there are disclosure requirements where this is not the case.

Examples include:

- Under Disclosure Requirement 5 (SBM-1) – Strategy, business model and value chain, paragraph 28a (iii) that states:

  The undertaking shall disclose the following information about the key elements of its general strategy that relate to or affect sustainability matters:

  …

iii) main countries of operation of the parent undertaking and of the subsidiaries that are connected with material impacts or risks; and

If the subsidiary of the LSME is to be treated as any other value chain actor, we do not see the need for explicitly mention the subsidiary in the ESRS LSME ED, as it can create confusion concerning the individual sustainability reporting versus the consolidated reporting.

We therefore propose that the subsidiaries of the LSME should not be mentioned explicitly, nor singled out as a special group, and the term "parent company", as used in the example above, should be changed to "the undertaking" or "the LSME".

If EFRAG disagrees with this proposal, we recommend that it is very clearly explained that the LSME standard is to be treated as a stand-alone standard, and that an LSME that is a parent company of a small group does not have to make consolidated reporting. We believe that it is essential for the LSME's to understand which of the above-mentioned scenarios apply to them. Furthermore, we find it very important that it is clearly explained, that subsidiaries of an LSME that is part of the LSME's value chain, e.g. as a vendor or business partner, should be treated no differently than any other vendor or business partner in the LSME's sustainability reporting.

The VSME standard

The Danish Government support the methodological approach and general principles used when drafting the ESRS VSME ED. We agree with the approach adopted by using the modular-based structure and we find that the VSME ED overall is proportional and that the standard can be value-creating and executable for the reporting undertakings and the users of the disclosures.

We support that the SMEs have the possibility to complement the metrics in the Basic Module with additional metrics from the Narrative-Pat Module and the Business Partners Module as refenced in VSME ED paragraph 19. However, we have certain concerns that we would like to highlight regarding the VSME ED:

<u>1) Regarding "Principles of materiality" (paragraph 42-57)</u>

The double materiality assessment in the ESRS 1 is a very complex and comprehensive matter. There is a strong need to define more explicitly what it means for SMEs to be compliant with the "principles of materiality" (paragraph 42-57). The current description in paragraph 42-57 is very much alike the one in the ESRS 1 which is developed for large undertakings with a lot more resources than the SMEs in scope for the VSME. To ensure the

VSME to be efficient and proportionate we suggest a clear description that sets out the expectation regarding SMEs (double) materiality assessment. The following could be considered when revisiting the "principles of materiality" (paragraph 42-57) in the VSME:

- "Principles of materiality" could potentially be narrowed down. It could be restricted to only include A) 'own operations' (and not the rest of the value chain) and B) the 'negative impact' perspective (and thereby exclude the positive impact perspective).
- In the Business Partner Module it could be considered to replace the "Principles of materiality" with the concept from the Basic Module: "if applicable".
- It could be considered to make available a clear definition of the concept "if applicable" in the Basic Module. It seems that it could be a way for SMEs to work with materiality in a simple and manageable manner.
- Maybe SMEs would benefit from a new independent module focusing only on the materiality assessment/"Principles of materiality".

2) Regarding the Business Partner Module (paragraph 67-85)

We find that it is not clearly described why the undertaking needs to perform a materiality assessment as a prerequisite to comply with the Business Partner Module. We suggest the connection between the two should be explained in more detail.

Given the fact that the benefits of the VSME standard to a wide extent is based on market acceptance, and the voluntary concept of VSME, and the often-limited resources of SMEs, the Business Partner Module should be designed as accessible as possible. This is why we are considering what could be the best way to structure the Business Partner Module for it to be as efficient and proportionate as possible.

3) Regarding paragraph 2

We suggest excluding *paragraph 2* that defines when the size of an undertaking is "micro", "small", or "medium". The explicit definition in the VSME-standard seems unnecessary since the definition of the size/category of an undertaking is defined in other regulations – and may change over time.

4) Regarding disclosure B 11 on due diligence (paragraph 37)

In order to minimize the administrative burden on the SMEs using the standard we suggest excluding B11 (*workers in the value chain, affected communities, consumers and end-users*) from the Basic Module. Considering the purpose and target group for the Basic Module it does not seem proportionate to expect the undertaking to report on its due diligence process. If undertakings using the VSME wish to report on the subject of B 11 undertakings can do so using *Disclosure N 3 – Management of material sustainability matters*.

5) Regarding disclosure BP 11 – Number of apprentices (paragraph 85)

We suggest excluding BP11 (*Number of apprentices*) from the Business Partner Module because the number of apprentices is not a generally needed disclosure request from business partners (cf. EFRAG Basis for Conclusions). To be efficient and proportionate the Business Partner Module should only include the information that is generally needed by the undertaking's business partners, investors and lenders. The number of apprentices is not among them.