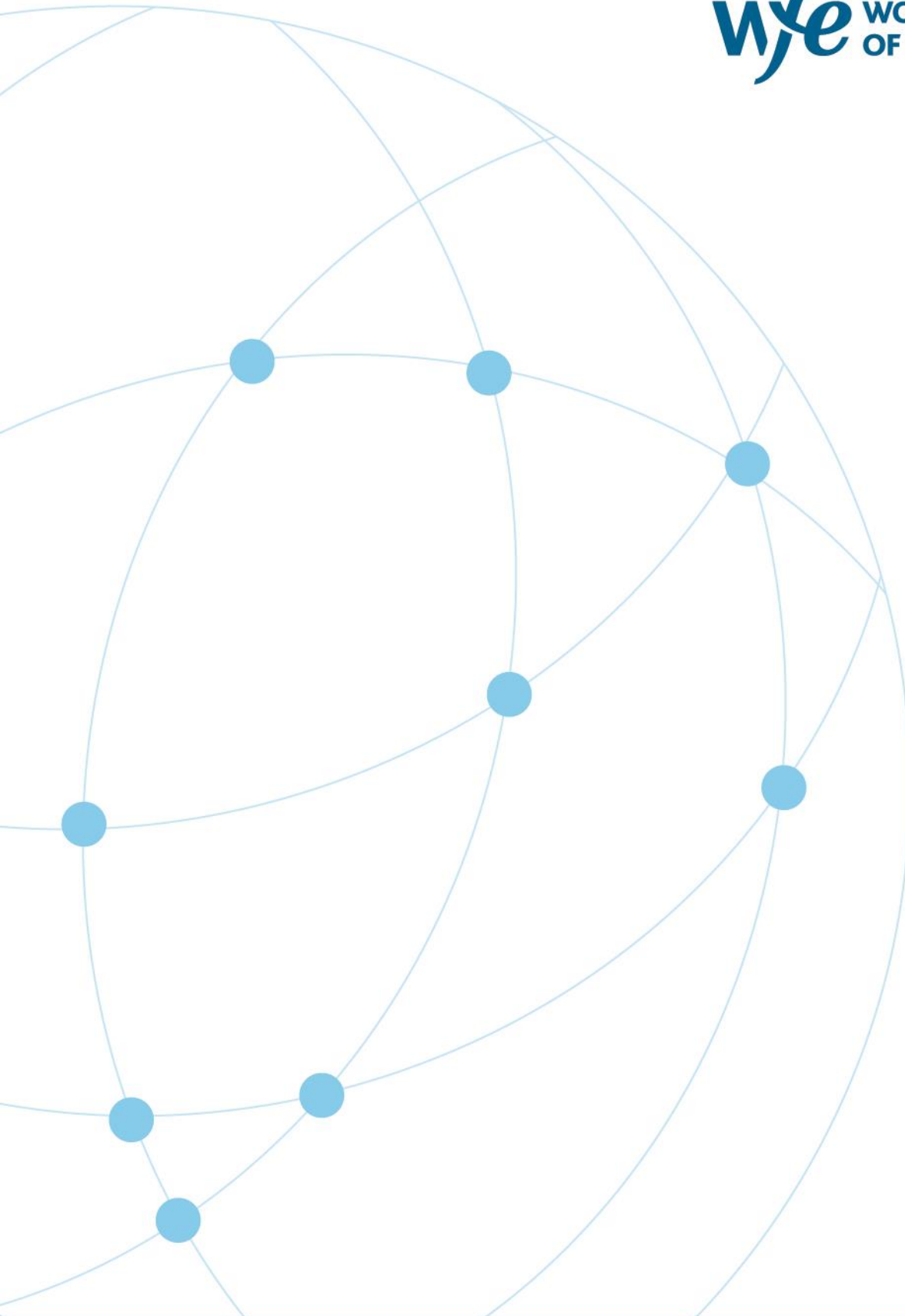




Background

Established in 1961, the WFE is the global industry association for exchanges and clearing houses. Headquartered in London, it represents over 250 market infrastructure providers, including standalone CCPs that are not part of exchange groups. Of our members, 36% are in Asia-Pacific, 43% in EMEA and 21% in the Americas. WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some \$1.3 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges, together with other exchanges feeding into our database, are home to over 55,000 listed companies, and the market capitalisation of these entities is over \$100 trillion; around \$140 trillion (EOB) in trading annually passes through WFE members (at end 2023).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back more than 40 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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or

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General Comments

The World Federation of Exchanges welcomes the opportunity to respond to the ESRS LSME exposure draft (ED). As mentioned in previous responses, the WFE is keen to promote proportionality when it comes to sustainability reporting.

Good quality sustainability reporting is important. However, it is also important that the burden of reporting requirements is managed in way such that considers the limited resources that smaller entities tend to have access to, but also provides users of such information with good quality data on the most relevant issues.

Detailed Comments

Part A: Key questions about ESRS LSME ED

Section 1: Methodological approach and general principles

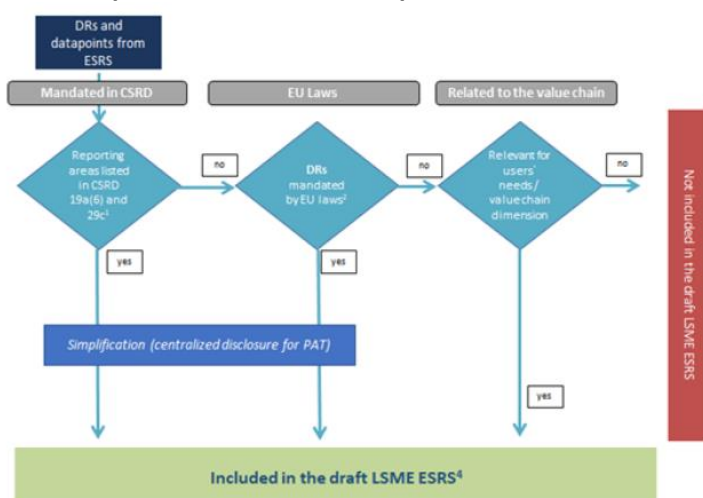
1. Methodological approach and general principles

The CSRD identifies the minimum content of the ED as a derogation of the content indicated for Set 1 (ESRS as published in the Official Journal in December 2023). The text of ESRS for large undertakings has been simplified to the maximum extent possible while considering the needs of investors. The diagram below illustrates the criteria for developing the simplifications:

(a) Reporting areas listed in CSRD art. 19a (6) and 29c, as content in the CSRD specific to LSMEs.

(b) DRs mandated by EU laws, to make information available to financial market participants: SFDR, Benchmark, Pillar 3 ESG and EU Taxonomy datapoints.

(c) Datapoints covering value chain information that are needed by large undertakings to report under ESRS Set 1 (value chain cap). In this step, the priority has been to include datapoints when are needed by investors of the SMEs in scope of LSME and no datapoints have been added due to the value chain cap.



Note 1: Art. 29c refers to the criteria set out in Art. 29b point 2 to 5

Note 2: EU laws limited to SFDR, Pillar 3, benchmark regulation, climate law and Taxonomy Regulation art. 8

Note 3: 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. As a second step, the resulting potential losses of information in the value chain dimension of Set 1 preparers have been considered

Note 4: LSME ED has considered also EFRAG PTF cluster 8 proposal as a possible minimum content

Do you agree with the approach adopted to develop LSME ED as a simplification of the content of ESRS Set 1?

Yes- the WFE welcomes additional considerations for listed SMEs to account for proportionality as SMEs tend to have less resources to be able to adapt to changing regulations. In previous responses, World Federation of Exchanges has also emphasised the need to manage the burden on SMEs of new reporting requirements.

2. Datapoints in EU regulation that are needed by financial market participants

The CSRD indicates that the ED is expected to ensure the availability of SFDR principal adverse impacts or PAIs and Taxonomy disclosures. Article 29b (5) of CSRD establishes that ESRS standards (including ESRS LSME ED) shall, to the greatest extent possible, take account of the information that financial market participants need to comply with their regulations (i.e. SFDR, EU Taxonomy (Reg. 2020/852) and other EU Regulations included in Set 1). We refer to these as "EU datapoints".

All EU data points from Set 1 have been included in ESRS LSME ED (see Section 2 Appendix B *List of datapoints in cross-cutting and topical sections that derive from other EU legislation*).

As in ESRS Set 1, these EU datapoints are subject to the materiality regime depending on the category of disclosures (see Materiality Approach in Question 5). When EU datapoint metrics are omitted as deemed not material, a specific disclosure is required confirming that they are not material.

Do you agree with this approach on EU datapoints?

Yes. It will enhance transparency if entities disclose that they have determined 'EU datapoints' metrics to be immaterial, if omitted.

3. Interoperability with ISSB standards not applicable

Considering that SMEs are usually less active at international level than large undertakings, in the development of LSME ED, EFRAG has prioritised simplification over interoperability with ISSB. The alignment with IFRS S1 and S2 is not one of the objectives of the CSRD for LSME (see ESRS LSME ED Basis for Conclusions par. 32 b).

EFRAG has considered that pursuing the alignment with ISSB would limit the simplifications, without the full benefit, as opportunities are to be excluded per the CSRD.

Do you agree with this approach?

As stated above, it is good to see simplification being prioritised in order to support SMEs in reporting of sustainable information that is material to the users of information. However, in the past, the WFE has also emphasised the benefits of harmonisation of sustainability reporting framework to the extent it is practical. Therefore, we would urge EFRAG to consider producing at least an interoperability grid between the ISSB and ESRS LSME standards, even though it is not yet prioritising alignment to ISSB.

4. Entity-specific disclosures

Depending on the type of activities carried out, the inclusion of additional information about issues that are common to the undertaking's sector support the provision of relevant, faithful, comparable, understandable and verifiable information. As ESRS Set 1, the ED requires to include additional disclosures when a material impact or risk is not covered or not covered with sufficient granularity by the requirements of the ED. EFRAG has considered that eliminating such requirement would be contrary to the objective of LSME indicated in the CSRD, i.e. to meet the investors' needs. Therefore, the ED has maintained the same approach as in ESRS Set 1.

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

Yes. We understand that proportionality needs to be balanced with ensuring that the information is useful for the investor.

5. Materiality approach

The ED has maintained the same approach for materiality as in ESRS Set 1, in consideration of the users' need of information of the necessary quality. This approach is detailed in Chapter 3.2 of Section 1 of the ED and is described below.

Information required by Section 2 General disclosures of this ED is to be reported irrespective of the outcome of materiality assessment.

The undertaking omits the disclosures in Sections 3,4, 5, and 6 pertaining to a topic, if it assessed that the topic in question is not material. In that case it may disclose a brief explanation of the conclusions of the materiality assessment for that topic but shall provide a detailed explanation in the case of climate change.

When a topic is deemed material, information prescribed by requirements in:

- Section 3 shall be included referred to the policies, actions and targets that are in place. If the undertaking has not adopted policies and/or actions with reference to the material matter concerned, it shall state this to be the case. For targets, if the undertaking has not set any, it does not need to explain it or disclose it.
- Sections 4, 5 and 6 is reported only when deemed material.

Do you agree with this approach?

Yes. We understand that proportionality needs to be balanced with ensuring that the information is useful for the investor.

5. Transitional provision - Approach to phase-ins

ESRS LSME ED includes the same list of phase-ins as in ESRS Set 1, which are applicable only to undertakings that will not choose to or that cannot opt-out (SNCIs and captive insurance and reinsurance undertakings cannot opt-out) for the first 2 years (i.e., for those undertakings that will report from 2026). These phasing-in provisions are detailed in chapter 9.3 of section 1 of the ED.

To reflect the size of the SMEs in scope, the threshold of 750 employees for some Set 1 phasing-in provisions has been reduced to 50 employees.

To increase flexibility, the ED includes additional phase-in compared to ESRS Set 1:

- DR S1-6 Training metrics: gender breakdown;
- DR S1-9 Incidents and severe human rights impacts: reconciliation of monetary amounts; and
- Reconciliations with financial statement: energy intensity based on net revenue and GHG intensity based on net revenue.

Do you agree with this approach taken?

Consistent with previous responses, the World Federation of Exchanges supports a phased-in approach. This is key to ensuring that information being reported is of good quality.

7. Do you agree that the threshold of 50 employees should be applied to all undertakings in scope?

No comments.

8. “Report if you have approach” for important reporting areas not explicitly mentioned in the CSRD in relation to the ESRS LSME Standard:

- **Targets;**
- **Due diligence;**
- **Stakeholder engagement, interests and views of stakeholders;**
- **Processes to engage with affected stakeholders;**
- **Processes to remediate negative impacts and channels; and**
- **Climate change transition plan.**

In the ESRS LSME ED the above elements are treated under a “report if you have” approach. An undertaking shall disclose the related information only if it has those elements in place. If not, it does not need to include other information, except disclosure of whether or not it has a due diligence process in place, as this is an SFDR datapoint and needed by financial market participants.

In EFRAG’s opinion, the complete absence of these elements from the ED would have impaired the relevance of the reported information and failed to meet the users’ needs. The proposed approach was retained instead of having these elements as a voluntary disclosure (‘may report’), as an optional disclosure does not preserve the comparability across undertakings. The rationale behind the current approach (instead of having those requirements as a “may”) is to ensure standardisation and comparability of these disclosures.

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

The above-mentioned areas are of increasing importance to investors; therefore, the WFE is in favour of not excluding the above from the ESRS LSME.

Section 2: Value chain implications

9. Do you agree with the approach taken by EFRAG on the value chain cap?

The WFE agrees that in order to manage the burden of reporting, data points that SMEs need to report of should be prioritised. It makes sense that the initial data points that listed SMEs report on are those are required for reporting for those entities for which the SME sits in the value chain.

Section 3: Sector specific guidance

10. Which of the options presented below should EFRAG follow to support SMEs in addressing and reporting their sector specific IROs? Note that EFRAG is developing sector-specific standards for large undertakings.

- 1. Undertakings applying ESRS LSME ED should apply on a voluntary basis existing reporting practice, 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 non-authoritative annex to the future sector-ESRS.

Please provide your comments, if any.

No comments.

Part B: Specific questions for each section of the ESRS LSME ED

No comments.