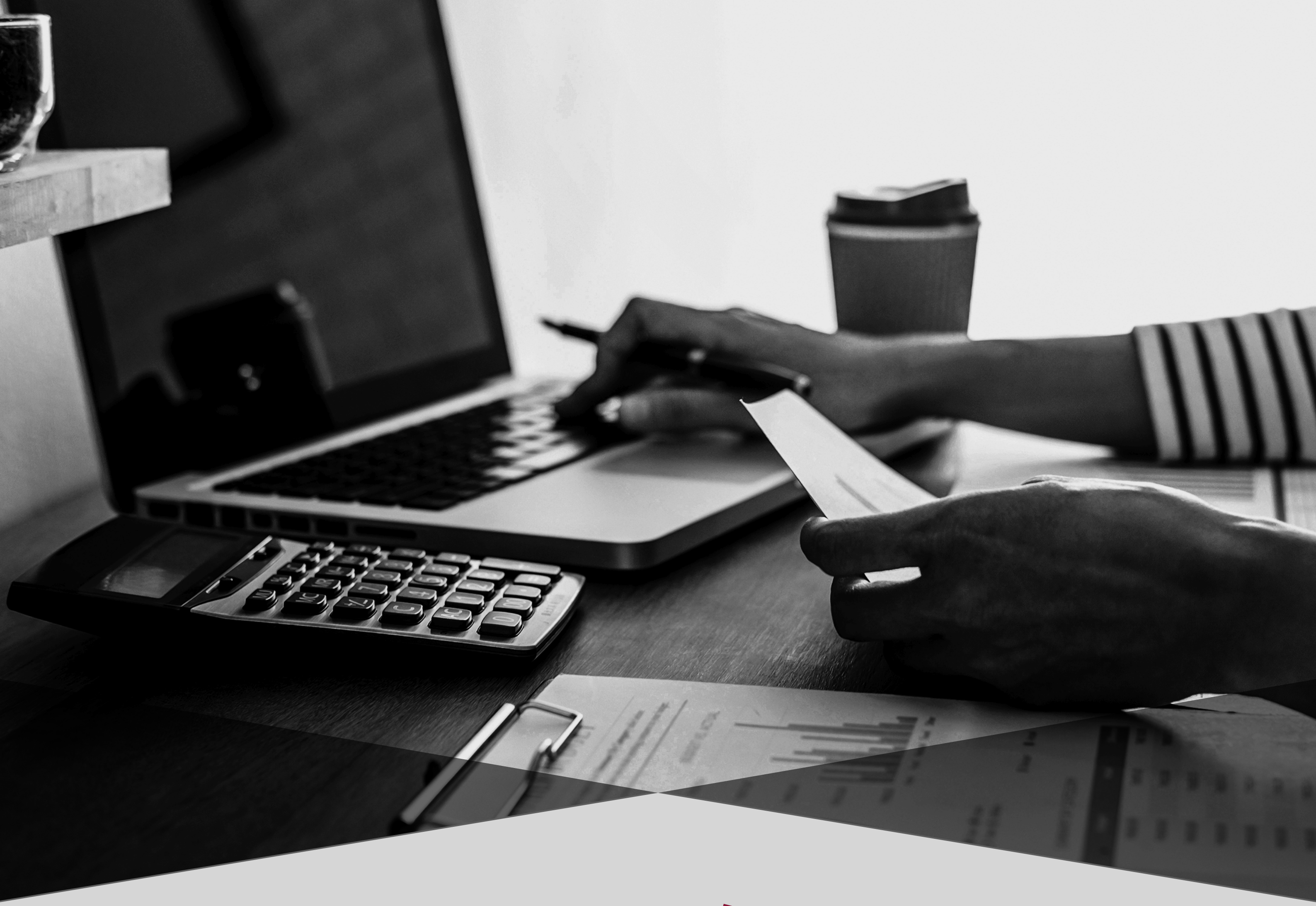

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ASEPUC Asociación Española de Profesores Universitarios de Contabilidad

STUDY

ICAC-ASEPUC 2023

Report on draft Listed SMEs European Sustainability Reporting Standards

Current Diagnosis on Sustainability Disclosure of Spanish Listed SMEs

GOBIERNO DE ESPAÑA | MINISTERIO DE ECONOMÍA, COMERCIO Y EMPRESA

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REPORT ON DRAFT LISTED SMES EUROPEAN
SUSTAINABILITY REPORTING STANDARDS

CURRENT DIAGNOSIS ON SUSTAINABILITY
DISCLOSURE OF SPANISH LISTED SMES

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Editor: Instituto de Contabilidad y Auditoría de Cuentas
(Ministerio de Economía, Comercio y Empresa)
Huertas, 26 - 28014 MADRID

Mª Lourdes Arco Castro
Mª Silvia Fresneda Fuentes
Mª Victoria López Pérez
Mª Mar Miras Rodríguez (Coordinadora)
Universidad de Sevilla

Universidad de Sevilla
1505

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1 Introduction

The report has been prepared based on LSME ESRS version 2.1[1]. Thus, we have pointed out the issues that, in the opinion of the authors, are most significant and may/should generate some changes with a view to the final version of the LSME ESRS considering the reading of the draft standard and the situation of the Spanish listed SMEs (hereinafter, SLSMEs) that will be subject to this standard.

To this end, as a complement, a *"Current Diagnosis on Sustainability Disclosure of Spanish Listed SMEs"* has been carried out, which is presented in a separate document and which has allowed us to contextualise and assess the impact of the LSME ESRS. Nevertheless, some of the conclusions obtained to justify the suggestions made are briefly set out in this report.

During the preparation of this report, the ESRS-Set 1 Delegate Act[2] has been published in June 2023, which we understood would lead to foreseeable changes to the LSME ESRS. These changes prior to LSME ESRS version 3 are noted in footnotes. A summary document[3] of the main changes in version 2.3 was subsequently published for the 28 June meeting of the Sustainability Reporting Board (hereafter SRB), although we did not have access to the full version. These changes are highlighted in *italics*. Finally, the issues relating to version 3 published for the meeting on 13 July 2023 have been incorporated in blue[4].

Considering the timetable presented at the SRB meeting on 28 June, the final draft is expected to be submitted for public consultation before the end of 2023.

This brief introduction is followed by a section devoted to the issues to be noted in relation to the general sections of the LSME ESRS. Subsequently, aspects of the topics sections will be addressed, first in general terms and then specifically on content.

1 https://www.efrag.org/Meetings/2303221119018449/EFRAG-SR-TEG-Meeting-3-April-2023

2 https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13765-European-sustainability-reporting-standards-first-set_en

3 https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2302241016087987%2F03%20-%2002.A%20-%20List%20of%20draft%20LSME%20DRs%20%28post%20EC%20DA%29.pdf

4 https://www.efrag.org/Meetings/2303311111516453/EFRAG-SR-TEG-Meeting-13-July-2023

2 Issues to point out regarding general sections of LSME ESRS

In order to contextualise this section, we believe it necessary to begin by pointing out that most of the SLSMEs analised do not currently publish information on sustainability, although several of them comment on some general issue on their websites. Specifically, of the 74 SLSMEs identified -excluding REIT (Real Estate Investment Trust)-, 44 belong to a large group of companies and refer to the group's Sustainability Report. That is, 30 undertakings would be obliged under the criteria of the draft LSME ESRS, only 10 companies published the report in 2021, although the contents they disclose are quite heterogeneous.

This situation leads us to question who is going to prepare this information in many of these companies. Specifically, whether they will do it themselves by hiring people specialised in the subject, or whether they will outsource it as they do with the preparation of the Annual Reports.

The risk behind this second option, in our view, is that theoretically the disclosure obligation is intended to make companies more sustainable in their behaviour and to incorporate sustainability into the core business. If this is outsourced, it is quite likely that it will not have the desired effect on the sustainability of the company.

In line with this, we wonder what the current situation of these companies in terms of the development of internal information systems and the degree of formalisation of business strategies and policies is, and whether they will have to allocate significant resources to their development and implementation.

In the following sections the issues that the authors believe should be considered in relation to the general sections are discussed *("Section 1. General Requirements" and "Section 2. General Disclosure")*.

"General Disclosures" has been split into 2 different sections, resulting in the creation of *"Section 3. Policies, targets, engagement and remediation"* (which encompasses from the former point 4.3 of *"Section 2. General Disclosure"* of version 2.1 onwards).

a Undertakings fall within the scope of LSME ESRS

The standard will apply to all LSMEs, meaning not only public interest SMEs, but also small and non-complex financial institutions, captive insurance companies, and captive reinsurance companies.

In version 3 of the draft, it is specified at the beginning of *"Section 2. General Disclosures"* that this only applies to individual Sustainability Reports. In addition, it is indicated that LSMEs that are under the umbrella of the standard and are not the parent company of a large group, will present the Sustainability Report in accordance with LSME ESRS. In this sense, the quantitative limits for considering a group as a large group are incorporated (although it seems that there is a typo in the current language as it does "not" exceed and should be "exceed") and, therefore, it is clarified who is not under the umbrella of the standard. As a consequence of the above, if the LSME is itself the parent of a large group, it will have to submit the Sustainability Report in accordance with ESRS Set 1.

Finally, the section "Consolidated reporting and subsidiary exemption" in *"Section 1. General Requirements"* has also been eliminated in version 3, as has the section on this issue in *"Section 2. General Disclosures"*.

b In general, the standards have been simplified regarding ESRS Set 1, but there are still aspects to be simplified, as indicated in the documents

In this respect, in general, a similar approach to that of the Spanish General Accounting Plan for SMEs in Spain could be considered. In other words, the LSME ESRS should include the issues that will affect most of the companies under the umbrella of the standard, and in the case that a company needs to report on some other aspect that has been identified as material and not covered by the standard, the general standard should be used (1) and/or (2) the sector-specific standard. And, if the specific issue is not covered by any of the standards, then, as indicated in the draft, choose to use the entity specific disclosures in accordance with the general disclosure principles and requirements.

One of the most relevant issues that we feel it is necessary to point out in version 3 is that EFRAG questions whether firms applying LSME ESRS should also be required to apply the Classification and General Approach ESRS on sectors and sector-specific ESRS (currently under development). In fact, it is indicated that these issues will be raised in the Public Consultation on the draft in the next months. As a consequence of the above, references to sector-specific ESRS have been removed in this version. It is only clarified that if the company presents information disaggregated by sector, it must use the ESRS Sector Classification and General Approach.

c Number of pages of the draft

This is an issue to be taken into account given that in version 2.1. the draft is 225 pages long. "*Section 1. General Requirements*" and "*Section 2. General Disclosure*" could be merged, as in many cases the requirements of the latter complement the former.

Version 3 has reduced the length of the standard by 27 pages, however, the annexes in the draft text have yet to be completed, which is why this reduction is not definitive.

Despite the reduction in the length of the draft in version 3, we believe that it can be further reduced by following the proposals made throughout this document.

Because of the splitting of *Section 2* of version 2.1, duplications in the document have been eliminated and the numbering of the successive sections has also been changed. Thus, the sections would now read as follows: "*Section 4. Environmental Disclosures*", "*Section 5. Social Disclosures*" and "*Section 6. Business Conduct*".

Besides, "*Section 2. General Disclosures*" has been reorganised and made clearer, which has been helped by several factors, such as the numbering of the *Disclosure Requirements* (hereinafter DRs) (14 in total), the removal of the topic breakdown in the current DR9 and DR12, the merging of the former IR3 and IR4, and the removal of the topic breakdown, which has now become DR11.

The new "*Section 3. Policies, targets, engagement and remediation*" brings together all the disclosure on policies and targets and, therefore, it is appropriate to eliminate this content in the specific section on each topic.

In our opinion, this structure favours the avoidance of duplication and a better understanding of the draft.

In the *Application Requirements* (hereinafter ARs) corresponding to Sections *2* and *3*, tables of mandatory (DRs 7, 9 and 11) or voluntary (DR12) disclosures have been incorporated, which clarify what information is required and how it can be reported. In addition, a breakdown by topic has been included in DR7.

d Progress in the adoption of the LSME ESRS

Considering that, to date, most SLSMEs are not publishing information on sustainability, it would be advisable for the draft to be more concise, and for the requirements to increase over time, as it is implemented and the entities gain experience. It is true that in "*Section 1. General Requirements*" there is a section on "*transitional provisions*", but this deals with 4 very specific issues that do not substantially reduce the difficulties of the initial application of the standard.

Section 1 "*General Disclosures*" includes a specific section on the requirement to disclose information on specific topics, in the event that they are material for the company - ***"Biodiversity (E4)", "Own Workforce (S1)", "Value Chain Workers (S2)", "Affected Communities (S3)", "Consumers and end-users (S4)"-***. In this respect, for financial years starting before 1/1/2028, the company can omit the topic breakdown and instead of it, it is indicated how to do so in a very reduced form.

In line with this issue, we believe that it would make more sense that this "transitional provision" to be included in *"Section 1. General Requirements"*, so that they are all included in the same section.

e Obligation to report on negative impacts and risks of those aspects that have been identified as material, with disclosure of positive impacts and opportunities being voluntary

While we understand that the nature of the standard is that SLSMEs not report only the positive aspects that make them "look good in the photo", the fact that the information does not have to be balanced (disclosing both positive and negative aspects) entails a risk that this information does not allow the recipient to get a complete picture of the company's situation in relation to sustainability, thus not fulfilling its objective.

The diagnosis made corroborates that, in the case of SLSMEs, positive impacts and opportunities are widely disclosed, while negative impacts and risks are covered to a lesser extent.

In Spain, we may find that there are SLSMEs that do not currently report on these issues because they are not obliged to do so (this is the case of most of them), and that, therefore, do not have their information systems prepared to collect this type of data. In this case, there is a risk that when they are obliged to report is limited to what they are obliged to report; and that they report more or less on voluntary aspects depending on whether they "look better or worse in the picture". This would lead to an unbalanced report that would not show the full picture of the company.

At present, renewable energy SLSMEs are the ones that disclose the most information on both environmental and social standards, although they generally refer to the positive effects that are being achieved, rather than the risks and negative impacts of their performance.

f Stakeholders and materiality

Section 2 "*General Disclosures*", the *SBM-2 DR* states that the interests and perspectives of stakeholders need only be disclosed where there is explicit engagement/relationship with them.

Although in view of the draft, double materiality should be assessed by the board, it should be kept in mind that the impacts on the various stakeholders must be taken into account so that all issues that have or could have negative impacts or risks have been considered by the company.

If there are no stakeholder engagements, how will this process be done? Perhaps a potential solution is that, in the first few years, companies are allowed to do the materiality assessment considering only the opinion of a small number of stakeholders (customers, suppliers, employees, investors), so that in later years they can consider all of them.

Version 3 indicates that the company will have to report on the interests and perspectives of "key" stakeholders, but nowhere in the document does it specify what is meant by "key stakeholder". In this respect, we believe that the standard should specify this issue, and that "key" stakeholders could be understood to refer to the closest stakeholders, as we have suggested.

"*Section 4. Environmental Disclosures*", the "*Locate Evaluate Assess and Prepare approach -LEAP-*" is explained in ARs 38 to 40 of Section 2, an issue that version 2.1 referred to on several occasions but did not explain at any time. In this sense, it seems to us that incorporating this approach in the environmental sub-topics makes the materiality analysis that we proposed to simplify more complex. Furthermore, the fact of only applying an additional approach in the environmental sub-topics increases the differences between environmental topics and the rest, further increasing the imbalance in terms of the volume and scope of the information disclosed.

Regarding financial materiality, the previous version identified the concepts on which effects could be produced, such as cash flows, position, development, performance and cost of capital, among others, but in version 3 the concept has been generalised to "decision-making".

g Materiality and list of topics

The fact that there is a list of starting points is, in our opinion, a positive aspect, as all companies will start by considering all aspects and, therefore, the image will be relatively complete.

However, given that this list is quite extensive and, although other aspects that are material for the company can be included, we understand that most companies will limite the analysis to the topics included in the list and will not consider incorporating any additional issues, as "nobody will miss them" in the report.

Given the heterogeneity of the SLSMEs Sustainability Reports analysed, having a common standard will facilitate the preparation of the information, comparability and its use as a management and decision-making tool, provided that the issues addressed are material for the companies. In the light of the sectors in which the SLSMEs operate, we believe that many of the topics will not be material.

We have identified that there is one topic, E5, which in Appendix A appears as ***"Circular Economy"*** while in "*Section 3. Environmental Disclosures*", it appears as ***"Resource Use and Circular Economy".*** This aspect needs to be standardised.

In this respect, it should be noted that in version 3, this list of AR15 topics and subtopics in Appendix A of "*Section 1. General Requirements*" has undergone some changes. However, other changes that have been made in the rest of the sections or that had already been made previously have not been updated. In particular, the name of one topic (***"Circular Economy***" to be "***Resource use and circular economy"***) still needs to be updated and the new topic ***"Anticipated financial effects from material environmental-related impacts and risks other than climate (E6)"*** still needs to be included.

h Mandatory reporting issues: material aspects + *"Section 2. General Disclosures"* + *"Climate Change"*

We understand that the obligation included in version 2.1 to report on climate-related aspects comes from European legislation, but we must point out that this requirement is perhaps excessive for the type of companies covered by the draft.

We do not know to what extent the issue can be simplified by reducing it to a minimum as a requirement, even if the company with material impacts can report on it more extensively.

This point is particularly sensitive if these standards are used as a basis for the "Recommendations to unlisted SMEs" (hereinafter VSMEs), as in that case it exceeds what "with reasonable effort" they can report.

Further to this earlier comment, it should be noted that in version 3, the disclosure of "***Climate Change (E1)"*** information is no longer mandatory and has become subject to materiality analysis.

i The possibility of using the "*Safe Harbour*" principle in relation to information on matters under negotiation and the possibility of omitting certain information on intellectual property, know-how, and results of innovation is introduced

Considering the information contained in the draft LSME ESRS, this has "recently" been changed. In Spain we must consider culture as a determining factor in this aspect. This may "open the door" to many aspects being secret and not being reported.

EU Directive 2022/2464 indicates that omitting certain information on matters under negotiation may be a matter for Member States. In this case, we understand that, in Spain, the final text of the standard should not leave this issue as the current Law 11/2018 does not allow it.

In this respect, in version 3, paragraph 98 of "*Section 1. General Requirements*", it is clearly stated that companies are not obliged to disclose classified information or sensitive information, even if it is considered material.

Furthermore, it is indicated that, although the Directive does not provide for the possibility of omitting information regarding intellectual property by LSMEs, since ESRS Set 1 does, it is decided to apply the same.

j Value Chain

Regarding the inclusion of information on the value chain, we understand the requirement for its inclusion, although we point out that there is a transition period for its full inclusion, it is normal that there are significant difficulties in accessing the information, as in many cases the suppliers and/or customers of these companies will be smaller companies with no disclosure obligations in this respect and probably with reduced or non-existent information systems.

In this case, the standard indicates that estimates should be made. We also note the difficulty of making them and that some specific standard or instruction will have to be made or developed.

k "With reasonable effort"

In view of the evolution of this issue (from impossible to reasonable effort), we understand that, although there has been an improvement, there is still room for improvement, as it is not clear what a reasonable effort in time and/or money is for a company (and, moreover, this concept can vary from company to company). This is important as it appears in several sections of the standards (*"value chain"* and *"preparation and presentation of sustainability information"*).

3 General questions on the sections on environmental/ social/business conduct topics

The general issues identified will be outlined below.

a Structure of the topics

The structure of the draft for the different blocks of topics is different, and in our opinion does not help the potential user of the LSME ESRS to read and apply it. The proposal would be to order them as follows:

1. Explain the thematic block: what is being discussed here?
2. Issues to report on. Firstly, all the requirements common to all the topics in the block and then the specific aspects per topic. In "*Section 4. Social Disclosures*", this outline is followed, which is clearer.

Hereafter, there is a proposal on how these common requirements could look like in "*Section 3. Environmental Disclosures*":

> The objective of this [draft] Section is to specify Disclosures requirements which will enable users of the sustainability statements to understand:
>
> a. How the undertaking affects its [all environmental topics]; in terms of material negative actual or potential impacts;
>
> b. Any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential negative impacts;
>
> c. The nature, type and extent of the undertaking's material risks on its [all environmental topics]; and how the undertaking manages them;(d) the financial effects on the undertaking over the short-, medium- and long-term time horizons of material risks arising from the undertaking's impacts and dependencies on its [all environmental topics].

In the case of the specific aspects per topic, we propose as an example how we would organise the content for the topic ***"Pollution (E2)"***:

a. The objective of the topic and its scope are specified:

> "This [draft] Standard sets out Disclosures Requirements related to the following sustainability matters: pollution of air, water, soil, substances of concern, including substances of very high concern; vi. The sustainability matter "pollution of air" covers information related to the undertaking's emissions into air (both indoor and outdoor), and prevention, control and reduction of such emissions and thus pollution ("Section 3. Environmental Disclosures", paragraph 1.b.v-ix).

b. The target scientific reference and/or policy reference is indicated in this topic:

> "This is to create a toxic-free environment with zero pollution also in support of the EU Action Plan "Towards a Zero Pollution for Air, Water and Soil" ("Section 3. Environmental Disclosures", paragraph 1.b.iii).

In the version 3 *"Section 4. Environmental Disclosures"* has been made similar to what was proposed, since the objective has been modified and has been written in general terms for all topics, including the aspects to be disclosed, the plans and strategies, as well as the actions, and the reference levels/frameworks for each one of them.

3. Finally, the following sections specify the DRs and ARs per *topic*. "*Section 3. Environmental Disclosures*" and "*Section 5. Business Conduct*", the ARs are set out in a later Annex. In the case of "*Section 4. Social Disclosures*", the ARs are listed after the DRs in each topic.

b Suggested table in annex

The inclusion in an Annex of a table in which the corresponding DRs and ARs per topic/subtopic/sub-sub-subtopic can be clearly seen would be advisable. This table should also include the reference to the page(s) where the corresponding DRs and ARs are developed.

This suggestion is motivated by the fact that in LSME ESRS version 2.1. it is not very clear which topic/subtopic/sub-sub-subtopic is addressed by each DR and AR.

As an example[5], "***Climate Change (E1)"*** has three *subtopics* (***Climate change adaptation***, ***Climate change mitigation*** y ***Energy***), but it has 5 DRs (*DR E1-5- Transition plan for climate change mitigation*[6], *DR E1-2– Energy consumption and mix, DR E1-3– Gross Scopes 1, 2, 3 and Total GHG emissions, DR E1-4 – GHG removals and GHG mitigation projects financed through carbon credits, DR E1-5– Potential financial effects from material physical and transition risks and potential climate-related opportunities*). In this case, it´s not clear if the *DRs E1-3*, *E1-4* y *E1-5*, are related to the subtopic ***Climate Change Mitigation*** or to ***Climate Change Adaptation***.

It is true that, in the case of this topic, companies have to report on all subtopics as indicated in the draft.

As discussed above in version 3, the disclosure on ***"Climate Change (E1)"*** is no longer mandatory and therefore clarification would be necessary.

5 This was done as an example in version 2.1, as in version 3 the topic ***"Climate change (E1)"*** does not have these DRs.

6 This DR has been removed.

Similarly, some of the sub-topics that appear in *Section 1* do not find any DR in the sections on *environmental/social/business conduct* topics.

For example, "***Water and marine resources (E3)***" has several subtopics (see figure below), but in "*Section 3. Environmental Disclosures*" there is only one DR for Water consumption.

[draft] ESRS E3	Water and marine resources	▪ Water withdrawals ▪ Water consumption ▪ Water use ▪ Water discharges in water bodies and oceans ▪ Habitat degradation and intensity of pressure on marine resources

In this respect, we question what would happen if the subtopic ***Water use*** [7] were a material topic for a company, as there are no specific DRs on it. This raises the question of whether the list of topics/subtopics on which to analyse materiality should be reduced to those with specific DRs in the *Environmental/Social/Business conduct sections*.

In this respect, it should be noted that the subtopics and sub-subtopics of "***Water and Marine Resources (E3)***" have been updated in version 3, the current version being the one below. In particular, the subtopics are limited to 2, and most of the subtopics of version 2.1 are now sub-subtopics in version 3.

[draft] ESRS E3	Water and marine resources	▪ Water ▪ Marine resources	▪ Water consumption ▪ Water withdrawals ▪ Water discharges ▪ Water discharges in the oceans ▪ Extraction and use of marine resources

The same is true for "***Biodiversity and ecosystems (E4)***", as there are 4 sub-themes (see figure below) but only two in the DRs, DR E4-1 - *Biodiversity and ecosystem transition plan* and *DR E4-2 - Impact metrics related to biodiversity and ecosystem change*.

In version 3, this problem is further deepened as only *DR E4-1 - Impact metrics related to biodiversity and ecosystems* remains[8].

7 In particular, this subtopic disappears.

8 The name of this DR has been slightly changed by removing "change".

[draft] ESRS E4	Biodiversity and ecosystems	▪ Direct impact drivers of biodiversity loss	▪ Climate Change ▪ Land-use change ▪ Direct exploitation ▪ Invasive alien species ▪ Pollution ▪ Others
		▪ Impacts on the state of species	Examples: ▪ Species population size ▪ Species global extintion risk
		▪ Impact on the extent and condition of ecosystems ▪ Impacts and dependencies on ecosystem services	Examples: ▪ Land degradation ▪ Desertification ▪ Soil sealing

c Annex Tables of measures (ARs)

These tables seem to us to be a very good option, but it is not clear in some topics/subtopics whether they are mandatory in case of material or whether they are recommended (both in content and format). In some specific cases it is indicated that they are mandatory (Total *GHG emissions* disaggregated), in others such as *DR E1-2 - Energy consumption and mix (AR 9)* nothing is indicated (however, in the general standards for large companies it indicates "*may be*"), and others referring to *DR E1-4 - GHG removals and GHG mitigation projects* financed through carbon credits (*GHG removals and Carbon credits*) it is indicated that they can be reported on. We believe this should be clarified.

In this respect, version 3 does expressly state that the table in the Appendix which includes the information in *DR E1-2 - Energy consumption and mix* can serve as a reference (*"may be"*).

d "*Climate change (E1)"* vs. all other topics

Regardless of whether companies are required to report on ***"Climate Change (E1)"*** and the other topics depending on whether they are material or not[9], the depth with which they are addressed differs significantly. In particular, the topic ***"Climate Change (E1)"*** has been simplified less with respect to the ESRS Set 1 of large companies than the other topics, which have been significantly simplified. The latter seems to us to be consistent with the idea of a standard adapted to the LSMEs.

In version 3, the topic ***"Climate Change (E1)"*** is no longer a mandatory disclosure topic, in line with the adaptation made in ESRS Set 1, and is now subject to materiality analysis like the other topics. However, the depth with which the different topics are addressed is still unbalanced, and the topic ***"Climate Change (E1)"*** continues to present a greater degree of breakdown and detail.

9 In the latest version of the ESRS Set 1 for large companies, the topic "***Climate change (E1)***" is no longer a mandatory disclosure and is now subject to materiality analysis. We understand that when the next version of the LSME is published, this issue will be in line with the above.

e Material positive impacts in *"Climate Change (E1)"*

In "*Section 3. Environmental Disclosures*", paragraph 1,a,i, states that the information will enable users of sustainability information to understand how the undertaking affects climate change in terms of positive and negative/current and future material impacts.

"*Section 1. General requirement*" and "*Section 2. General Disclosures*" indicate that the disclosure of positive impacts is voluntary (Section 1, paragraph 4- "*The undertaking may disclose all the material information regarding positive impacts in relation to environmental, social, and governance matters*"). This aspect should be revised to ensure that the document is consistent.

An important new feature of version 3 is that only present or future material negative impacts need to be reported for each of the topics, in particular ***"Climate Change (E1)"***, thus correcting the inconsistency noted above. In addition, it is expressly stated in most topics that the disclosure of opportunities is voluntary.

f Temporary Horizon

"*Section 4. Social Disclosures*" and "*Section 5. Business Conduct*", when including the ARs, the transfer of these requirements should be reviewed, as they refer to opportunities and long, medium and short-term time horizons. These references should be avoided in order to follow a coherent structure throughout the document, where disclosure of impacts and risks is required, and adopt a short-term time horizon.

4 Questions on the content of the sections on environmental/social/business conduct topics

The first point to note is that disclosure requirements vary from topic to topic. With this in mind, we have identified several groups within the different topics:

- ***"Climate Change (E1)"*** is overdeveloped and in our opinion contains too many requirements.
- ***"Own Workforce (S1)"*** is fairly well developed, but companies could address it, in general without problems with regard to their employees, as they are already disclosing information on the proposed contents.
- ***"Pollution (E2)"***, ***"Water and Marine Resources (E3)"***, ***"Biodiversity and Ecosystems (E4)"***, ***"Resource Use and Circular Economy (E5)"***, and ***"Business Conduct (G1)"***, which have been summarised and set out in a very concrete way.
- ***"Affected Communities (S3)"*** and ***"Consumers and end-users (S4)"***, where simplification has led to the absence of DRs and ARs. This leads us to make a proposal based on the ESRS Set 1 S3 and S4 of the large companies, respectively.
- ***"Workers in the value chain (S2)"*** indicates that the requirements are the same as for ***"Own workforce (S1)"*** and is perhaps excessive, as the possibilities for control and management of these aspects may be beyond what companies can achieve by making a "reasonable effort".

In this respect, it is necessary to point out that in LSME ESRS Version 3 the topics ***"Workers in the value chain (S2)"***, ***"Affected Communities (S3)"*** and ***"Consumers and end-users (S4)"*** have not undergone any significant changes. As noted above, a transitional provision is made to omit information on some topics, and instead DR 2 (*"Section 2. General Disclosures"*) in its paragraph 17 indicates how to report in a very reduced form.

Below, we briefly present the conclusions by thematic blocks after having analysed the companies' Sustainability Reports, as well as the specific proposals in each case.

4.1 *Section "Environmental Disclosures"*

"Climate Change (E1)": The SLSMEs disclosure data are presented in summary form in Table 1.

//// **TABLE 1** Measures on ***"Climate Change (E1)"*** and SLSMEs which disclosure

DR	Metrics used	No. of companies reporting
DR E1-2 - Energy consumption and energy mix	MWh renewable energies used	3
	Production GWh/per year	1
	Electricity consumption	6
	Petrol and diesel consumption (litres)	3
Gross scopes 1,2,3 and Total GHG emissions	Gross Scope 1 GHG emissions	3
	Gross Scope 2 GHG emissions	3
	Gross Scope 3 GHG emissions	2
	CO_2 emissions	4
GHG removals and GHG mitigation projects financed through carbon credits	Avoided emissions CO_2	2

Thus, we can see that neither *DR E1- 1 - Transition plan for climate change mitigation* nor the *DR E1- 5 – Potential financial effects from material physical and transition risks and potential climate-related opportunities* SLSMEs report on any issue in the manner required by the document.

At this point we should point out that version 2.3 del LSME ESRS removes the DR E1-1- Transition plan for climate change mitigation and moves it to the "Section 2. General Disclosures", On one hand, it seems coherent to us, as the topic is a mandatory disclosure and none of the companies that make the Sustainability Report on a voluntary basis address this aspect. This change questions the subtopic ***Climate Change Mitigation****.*

Version 3 confirms that the information regarding *"Transition plan for climate change mitigation"* is included in the *"Section 2. General Disclosures"*, specifically in the ARs of the DR7 y DR9.

In relation to *DR E1-5 – Potential financial effects from material physical and transition risks and potential climate-related opportunities* in version 3 the requirements have been removed and it is stated that the financial effects will be in addition to those disclosed in the financial statements. In addition, the term "*Potential*" has been changed to "*Anticipated*".

In the *DR E1-2 – Energy consumption and mix,* we can observe that on non-renewable energy sources, SLSMEs report about petrol/diesel consumption (3 companies), electricity consumption (6 companies), renewable energy consumption (3 companies) and renewable energy production (1 company), although we must point out that the latter company is dedicated to the "promotion, construction, management and maintenance of renewable energies", so it is particularly sensitive to this aspect. In relation to the table proposed in AR9, the companies do not present the information in this way.

An additional issue to note is that even though the breakdown of renewable energies has been removed from ESRS Set 1 E1, the same table (including the breakdown) still appears in the AR. We believe it would be necessary to adjust it.

In version 3, in relation to *DR E1-1 - Energy consumption and mix*, the breakdown of energies (p7) has been reorganised, distinguishing between:

- Fossil energy.
- Nuclear energy.
- Renewable energy.

In addition, a requirement to disaggregate the consumption of renewables and non-renewables in MWh is introduced.

With regard to the suggestion made earlier about the AR9 table, its content has been adapted considering the changes in the DR.

In relation to *DR E1-3 – Gross Scopes 1, 2, 3 and Total GHG* we found that three companies quantify their carbon footprint. Among them, 2 report on all three *scopes*, while one of them only reports on *Scopes 1 and 2*. *Scope 2* is not calculated according to the two approaches (gross location-based vs. gross market-based), nor do they specify which approach they have used. In addition, the three companies that report belong to the renewable energy sector. On the other hand, 4 companies assess the total CO_2 emissions made (3 companies are the same than in the previous issue). In this case, a couple of companies also include a comparison with the previous year, although they do not present the breakdown that can be seen in the table in AR28.

In version 3, DR E1-2 - *Gross scopes 1, 2, 3 and total GHG emissions* specifies that emissions are to be expressed in *"metric tonnes of CO_2eq".*

Finally, and within the topic *DR E1-4 - GHG removals and GHG mitigation projects financed through carbon credits*. In this respect, In this respect, the companies only report on CO_2 emissions avoided, and only 2 companies do so, but not with the breakdown that can be seen in table AR40. In this respect, it should be noted that this information is included in the financial information, in particular in the Annual Report, so reference could be made to it.

None of the SLSMEs analysed report on *GHG mitigation projects financed through carbon credits* in their sustainability report.

In relation to carbon credits, version 3 specifies and sets the information to be disclosed.

To conclude this topic, it is necessary to point out that if reporting on these issues is going to be mandatory, one should consider:

1. Simplifying what companies are asked to do.
2. Establish a transition to the maximum required in order to allow companies to have enough time to be adapted.

In this respect, and despite the fact that the mandatory reporting on ***"Climate Change (E1)"*** is removed and that disclosure on this topic depends on its materiality, the two points outlined above would need to be considered as SLSMEs that currently understand climate change as a material issue do not report with the depth required in the draft of the standard.

"Pollution (E2)": The companies in the sample (SLSMEs) do not disclose the information required in the draft LSME ESRS. In fact, they do not present any metrics on these issues.

With regard to the content of the document, version 3 has added the obligation to report, if the topic is material about microplastics, both generated and used.

"Water and Marine Resources (E3)": As can be seen in Table 2, only 5 companies report on water consumption. Some of these companies report a breakdown of water used in offices and facilities, and some compare consumption with a previous year. However, there is no mention of water consumption from areas with water stress problems, nor is there any indication of the methodologies used to calculate or the actual consumption part of the estimates.

//// TABLE 2 Measures on ***"Water and marine resources (E3)"*** and SLSMEs which disclosure.

DR	Metrics used	No. of companies reporting
DR E3 -1 - Water consumption	Water consumption	5

"Biodiversity and Ecosystems (E4)": Only one of the companies mentions this topic, but in a very general way. They explain the company's general policy, indicating that before carrying out projects, an environmental impact report and an environmental and landscape integration plan are drawn up. They give an example of a project and give a concrete assessment of the measures that were carried out.

LSME ESRS version 2.3. removes from "Section 3. Environmental Disclosures" the DR E4-1 - Transition plan on biodiversity and ecosystems, and therefore this topic has only one DR "Impact metrics related to biodiversity and ecosystems" (they have removed the word "change").

Version 3 confirms this deletion, and the information concerning *Transition plan on biodiversity and ecosystems* is included in *"Section 2. General Disclosures"* in the ARs of DR7 and DR9. In addition, the requirement related to status of species metrics (former paragraph 70 of version 2.1) has been removed.

"Resource Use and Circular Economy (E5)": In relation to this last environmental topic, we can see that half of the SLSMEs that publish a Sustainability Report discloses on paper consumption, although only one reports on some other material consumption (toner).

On the other hand, only two companies make an estimate of the waste generated and differentiate between them, but each is based on different criteria. Only in one case there is a comparison with the previous year presented (see Table 3).

//// TABLE 3 Measures on ***"Resource Use and Circular Economy (E5)"*** and SLSMEs which disclosure.

DR	Metric used	No. of companies reporting
Resource inflows	Paper consumption	5
	Toner consumption	1
Resource outflows	Waste estimation	2
	Differentiation between waste (hazardous/non-hazardous, types of waste)	2

In version 3, in relation to *DR E5 - 2 Resource inflows*, specific mention has been made of those resources of a biological nature.

"Anticipated financial effects from material environmental-related impacts and risks other than climate (E6)": With regard to financial effects, the specific DR has been left for ***"Climate Change (E1)"***[10] and, for the rest of the environmental topics, this effect is included in this new topic. Therefore, it will have to be reported (in version 2.1 it was only included for ***"Climate Change (E1)"*** and as a DR) depending on whether these effects are material or not. Also, this aspect has been included in DR7 of "*Section 2. General Disclosures*".

To conclude with the environmental block, our proposal in relation to the content would be to simplify ***"Climate Change (E1)"*** (see Table 4), and leave the other topics as they are, as the requirements are not high and companies will only have to report on them if they are material to their activity.

//// **TABLE 4** Simplification proposal of ***"Climate Change (E1)"*** topic

In the *DR E1-2 - Energy Consumption and Mix* the table should be simplified by not requiring a breakdown of renewables. This issue has already been considered in version 3.

Regarding the *DR E1-3 - Gross Scopes 1, 2, 3 and Total GHG emissions* requires only *Scopes 1 and 2* and total emissions, establishing a transition for Scope 2 so that they initially calculate them by one method (gross location-based vs. gross market-based), and then require both. Let the disclosure of *Scope 3* be voluntary and if the company values it, then they should have to present the breakdown, as this does not require much effort[11]. In version 3, this is essentially the same as it was in version 2.1. This would imply a significant reduction of the AR28 table, and the ARs referring to Scope 3.

Regarding the *DR E1-4 - GHG removals and GHG mitigation projects financed through carbon credits* we note that the part referring to *GHG mitigation projects financed through carbon credits* has practically disappeared from the DR with respect to the ESRS E1 of Set 1 for large companies, as it appears only in a testimonial form at the beginning and without a breakdown. We understand that the problem arises in this way because, in all likelihood, these companies will not be in the carbon credit market and, therefore, all these issues are irrelevant. Therefore, our suggestion would be to leave this second part as voluntary and only if appropriate, report on it according to the reality of each company. Furthermore, although the language is simplified in the DR, the language of the AR, with respect to ESRS E1, remains practically the same and with the same level of breakdown in this second question. Given that only two companies report "*avoided emissions*", this indicator can be included in the previous DR (*DR E1-3 - Gross Scopes 1, 2, 3 and Total GHG emissions*) and this entire DR can be deleted.

In this respect, version 3 does specify information on *carbon credits*.

Finally, regarding the last *DR E1-5 - Potential financial effects from material physical and transition risks and potential climate-related opportunities* and, given how the rest of the environmental topics have been dealt with (given that this has been moved to *Section 2*), we understand that it would be relevant to do the same with this DR.

Given the changes in this respect in version 3 (creation of a new topic E6 that includes all the financial effects of all the environmental topics except for ***"Climate Change (E1)"*** we believe that all the *"Anticipated Financial Effects"* of the environmental topics, including those relating to ***"Climate Change (E1)"*** in this new topic, and thus remove the specific DR in this respect in ***"Climate Change (E1)"*** (DR E1-4).

10 DR E1-4 - Potential financial effects from material physical and transition risks and potential climate relates opportunities.

11 In the Delegate Act of the ESRS Set 1 concerning large companies, this point has been made mandatory only for companies with more than 750 employees. This is in line with our simplification proposal.

Furthermore, in the language of the text, although the opportunities have been removed (although in ***"Climate Change (E1)"*** it also indicates that it is mandatory to report on positive impacts), and their breakdown in the AR has not been removed. This last issue has been at least partially solved in version 3, as it has been clarified that opportunities are for voluntary disclosure in all topics, including "***Climate Change (E1)***".

4.2 *"Social Disclosures"*

In the following, we will address the issues of the social topics.

***"Own Workforce (S1)"*:** Duplications should be avoided as far as possible, e.g. *"Own workforce"* is defined in the "objectives" section and mentioned again in the ARs. The same applies to the definition of own workforce, non-own workforce and value chain workers (page 16-AR16)[12].

With regard to the analysis of the DRs, we can point out that:

- *DR S1-1 - Characteristics of the company's employees/DR S1-2 non-employees.* In general, most SLSMEs do not comply with DR S1-1 and S1.2 on workforce characteristics. More specifically, information on the number of employees, and the breakdown by gender and country is often not provided. The methodologies used for the calculation of the different metrics are also not mentioned. However, we understand that this information is not difficult to incorporate as companies usually disclose it in their annual accounts.

  In view of this, it seems appropriate to have inserted in version 3, paragraph 9, the clause to disclose this information disaggregated where the company has 50 employees or at least 10% of its workforce.

- *DR S1-3 - Collective bargaining and social dialogue coverage*. Only 1 SLSMEs discloses information on the agreements applied and the percentage of workers covered by them and only 3 companies disclose information on the applicable agreements.

  In version 3, the former paragraph 18b, which required the company to disclose information on whether the working conditions of workers not covered by collective agreements were determined by the company or by collective agreements of third companies, is deleted. In our view it is reasonable not to require information on collective agreements that are applied by third companies, given the difficulty for SLSMEs to obtain such information.

- *DR S1-4 - Adequate wages***.** In this section, information on salary levels is required. Although half of the SLSMEs do not disclose this information in their Sustainability Reports, they do so in the Annual Report, when talking about the different levels of employment within the entity, so it should not be a major effort to include this DR.

- *DR S1-5 - Social protection.* This DR is not covered in the analysed Sustainability Reports of SLSMEs. Thus, for example, only one company provides information on the number of workers covered by such insurance.

  Version 3 requires the company to disclose this information about its employees, whereas version 2.1 also included *non-employees*. Given the difficulty of making this information available and the reduced negotiation power of LSMEs, the change introduced in version 3, requiring this information only for employees, seems to us to be appropriate.

12 This duplication is solved in version 3.

- *DR S1-6 – Indicators of Training and skills development*. In general, SLSMEs provide information on this issue. Companies do mention training policies. However, most do not provide information on training contents and metrics such as total or average training hours per employee. In addition, there is no compliance with the ARs.
- *DR S1-7 – Occupational Health and safety indicators.* SLSMEs mention safety and health policies, but information about accidents, work days lost, and other indicators to verify and track policies over time are not usually disclosed.
- *DR S1-8 - Compensation indicators (pay gap and total compensation).* Only 2 of the companies analysed (SLSMEs) mention the gender pay gap and none refer to compensation policies or measures. In this DR, incidents of discrimination (number and fines) have to be reported and the corresponding financial item has to be mentioned. It is our understanding that this requirement could be removed, which is currently under discussion, because in most cases this item would not be relevant enough to be broken down in the corresponding accounting item. In version 3, in line with our proposal, this point has been corrected and deleted.

  At this point, it should be noted that in version 2.3 of the LSME ESRS, DR S1-8 changes its name to "Remuneration metrics". In version 3, the change of name of this *DR* is maintained.
- *DR S1-9 - Incidents, allegations and severe human rights impacts*. Considering the analysis carried out on the information published by SLSMEs, the information on these aspects is not given such as negative impacts but in the form of positive impacts of the companies' performance.
- *DR S1-10 - Diversity indicators* (voluntary in version 2.1). Four of the companies analysed disclose information on the percentage of workers distributed by gender and age and only 2 companies provide information on workers with disabilities in the workforce. In general, the indicators are not developed. In this respect, SLSMEs are taking into account the disclosure of information on diversity in corporate governance, but do not develop this requirement at the level of employees.

  This DR indicates that companies should disclose information on the percentage of employees by gender, disability and age in top management. In this regard, we believe that the concept of "top management" should be further defined to avoid problems of interpretation.

  At this point, it should be noted that in version 2.3 of the LSME ESRS, DR S1-10 - Diversity Metrics, becomes mandatory. In line with what has already been indicated above, the disclosure of information on this subject should not involve too much effort for companies, so it seems appropriate that the DR of information on diversity should be mandatory.
- *DR S1-11 – Work-life balance indicators* (voluntary). SLSMEs´ Sustainability Reports mention compliance with social security legislation in a generic way, employee welfare and work-life balance policies. However, no company provides information on the percentage of employees covered by family benefits.

  At this point it should be noted that in LSME ESRS version 2.3 the term "indicators" is replaced by the term "metrics" for all DRs in the topic. This modification is continued in version 3.

In view of the information disclosed in the SLSMEs sustainability reports, we can point out that the companies disclose information on these DRs, but do not comply with the ARs. The analysis suggests that these companies can meet these requirements as they have internal information on these items and this would not represent a significant effort for them.

"Value Chain Workers (S2)": At present, no company (SLSMEs) complies with the requirements of the draft LSME ESRS. The difficulty of disclosing information from third parties and the lack of development of the standard can lead to companies disclosing very different and incomplete information, making the quality and comparability of the information difficult. Our proposal in this respect is to merge the topics ***"Own Workforce (S1)"*** and ***"Value Chain Workers (S2)"***, to include both options in the DRs making voluntary the reporting of the information on workers in the value chain.

Regarding this topic, there is no change in version 3. However, it does not seem logical to have simplified the DRs for *own workers* in version 3 by removing the disclosure requirements for non-employees and not to have simplified the DRs for value chain workers for whom LSMEs often lack information.

"Affected Communities (S3)" **and** ***"Consumers and end-users (S4)"***: These issues, not related to workers, are very poorly developed in the draft. It refers to ESRS Set 1, and the information required is information on short-term impacts and risks and does not have corresponding ARs developed.

Regarding ***"Affected Communities (S3)"***: Eight of the companies analysed develop in their Sustainability Reports a policy statement towards communities, but in no case do they comply with the DRs on material information. Regarding this topic, there is no change in version 3.

Finally, regarding ***"Consumers and end-users (S4)"***: Only 2 of the analysed companies (SLSMEs) mention damage prevention systems, but these are not very well developed in the Sustainability Reports. There is also no change in topic in version 3.

In light of these facts and the content of the draft, our proposal would be to develop ***"Affected Communities (S3)"*** in a similar way to the latest environmental topics. For this purpose, the proposal is based on the ESRS Set 1 S3 (see Table 5).

//// TABLE 5 Proposal of development for ***"Affected Communities (S3)"*** topic

- The information requested in the standard for large companies - ESRS S3 of Set 1 -, paragraph 8, DR SBM-2-*Material impacts, risk and opportunities and their interaction with strategy and business model* could be required but only with respect to directly affected communities, given that these companies have little control and information on indirect effects or those occurring in the value chain.
- Regarding the *DR S3-1 - Policies related to affected communities*, requirements AR9 to AR14 may be applicable.
- To comply with *DR S3-2 - Processes for engaging with affected communities about impacts* and with *DR S3-3 -Processes to remediate negative impacts and channels for affected communities to raise concerns* a section could be created that encompasses both requirements, including AR17 and the channels of communication with communities (AR21, AR22, AR254-AR27). The other ARs of the ESRS Set 1 S3 could be voluntary to the extent that they are not material to the company, such as AR15, in case it affects indigenous communities[13].
- Regarding *DR S3-4 - Taking action on material impacts on affected communities, and approaches to mitigating material risks and pursuing material opportunities related to*

13 Two of the companies analysed (SLSMEs) carry out part of their activity in Latin American countries, so it would be relevant to reflect the impact of their activity.

affected communities, and effectiveness of those actions the AR29, 31, 33, 35, 36, 41a y b; 43 y 45 could be included. In addition, AR37-AR42 could be simplified by requiring a description of the initiatives and processes carried out in the communities, the resources committed and the expected results.

- Other ARs would be excluded since, due to the characteristics of these companies, they tend to have little influence in determining contractual relationships or the effect of third parties on communities (AR30, AR32).
- In terms of metrics and targets, AR47 would apply.

With regard to consumers and/or end-users, we propose the following changes included in Table 6 based on ESRS Set 1 S4 ***"Consumers and end-users".***

//// **TABLE 6** Proposal of development for ***"Consumers and end-users (S4)"*** topic

- AR3 and AR5 to AR8 could be included, as they link to the information required in *"Section 2. General Disclosures"*.
- The ARs set out in respect of *DR S4-1 - Policies related to consumers and end-users* can be incorporated into the social section.
- From the requirements set out in ESRS S4 of Set 1 for *DR S4-2 - Processes for engaging with consumers and end-users about impacts and DR S4-3 - Processes to remediate negative impacts and channels for consumers and end-users to raise concerns* a single section could be created that encompasses both DRs. In particular, AR16 on communication channels could be followed by communication channels as part of the process to mitigate negative impacts on consumers (AR19). In addition, it is appropriate to include ARs 22-26.
- With regard to the information requirements established in the ESRS standard of Set 1 for *DR S4-4 - Taking action on material impacts, and approaches to mitigating material risks and pusuing material opportunities related to consumers and end-users, and effectiveness of those actions and aproaches*, the following ARs could be included: AR26, AR29, AR31, AR32, AR37a, b, AR38 and AR40. We recommend omitting the voluntary requirements (AR13, AR25, AR28, AR30, AR33, AR34, AR39, AR41). In the same line, AR27 and AR28 would not be included, given that the draft is LSME and these requirements would not apply in most cases. AR35 and AR36 would not be considered as they relate to positive impacts.

Finally, since the topics ***"Affected Communities (S3)"*** and ***"Consumer and End-user (S4)"*** have the same structure, the same DRs can be set and the ARs for both sections can be homogenised. The requirements that are specific to each topic are marked with an asterisk, all other ARs are common and can be applied to both sections. As a summary, Table 7 shows the proposed DRs and ARs that could be applicable to LSMEs, which are taken from ESRS Set 1 S3 *"Affected Communities"* and ESRS Set 1 S4 *"Consumers and End-users"*.

//// TABLE 7 Proposal of re-ordering of DRs and ARs for ***"Affected Communities (S3)"*** and ***"Consumers and end-users (S4)"*** topics

DR	Paragraph	AR	Short description	DR	Paragraph	AR	Short description
ESRS 2 SBM-3 - Material impacts, risks and opportunities and their interaction with strategy and business model(s).	8a; 8b 9ai; 9b; 9d	AR5	Consider the impacts on the company's strategy or business model(s).	ESRS 2 SBM-3 - Material impacts, risks and opportunities and their interaction with strategy and business model(s).	8 9a; 9b; 9d	AR5	Consider the impacts on the company's strategy or business model(s).
		AR6	Impacts that originate in the strategy or business model(s) and may entail material risks for the company.			AR6	Impacts that originate in the strategy or business model(s) and may entail material risks for the company.
	10	AR7	Examples of some characteristics of affected communities.		10	AR7	Examples of consumer/user characteristics.
	11	AR8	Business risks that may arise due to the company's dependence on affected communities.		11	AR8	Business risks that may arise due to the company's dependence on its consumers and users.
DR S3-1 – Policies related to affected communities.	12-16	AR9	Key information needed to ensure an accurate representation of policies in relation to affected communities, and explanations of significant changes in adopted policies.	DR S4-1 – Policies related to consumers and end-users.	12-16	AR9	Key information necessary to ensure an accurate representation of policies relating to consumers and users, and explanations of significant changes in adopted policies.
		AR10	References to policies disclosed in other documents.			AR10	References to policies disclosed in other documents.

//// TABLE 7 Proposal of re-ordering of DRs and ARs for ***"Affected Communities (S3)"*** and ***"Consumers and end-users (S4)"*** topics

DR	Paragraph	AR	Short description	DR	Paragraph	AR	Short description
DR S3-1 – Policies related to affected communities.	12-16	AR11	Disclose the alignment of its policies with the UN Guiding Principles on Business and Human Rights.	DR S4-1 – Policies related to consumers and end-users.	12-16	AR11	Disclose the alignment of its policies with the UN Guiding Principles on Business and Human Rights.
		*AR14	Disclose serious human rights issues and incidents considering legal disputes related to land rights and indigenous peoples' consent.			*AR12	Alignment with other policies relevant to consumers and/or end-users and, internal policies.
						*AR13	Dissemination of tools, channels and communication barriers.
DR S3-2 – Processes for engaging with affected communities about impacts.	18- 23	**AR 15*	Consider how engagement with indigenous people includes negotiating in good faith.	DR S4-2 – Processes for engaging with consumer and end-users about impacts.	17-21	**AR 15*	Describe the functions that have operational responsibility, and whether it requires certain skills of personnel.
	20	AR17	Consider the following illustrations: (a) stage(s) at which engagement occurs (...); (b) type of engagement (...): (c) frequency (...); and; (d) role of operational responsibility (...).		19	AR16	Consider the following illustrations: (a) stage(s) at which engagement occurs (...); (b) type of engagement (...): (c) frequency (...); and; (d) role of operational responsibility (...).
DR S3-3 – Processes to remediate negative impacts and channels for affected communities to raise concerns.	24-28	AR 21	Channels for raising concerns or needs.	DR S4-3– Processes to remediate negative impacts and channels for consumers and end-users to raise concerns.	22-26	AR19	Channels for raising concerns or needs.
		AR22	Community access to channels.				

//// **TABLE 7** Proposal of re-ordering of DRs and ARs for ***"Affected Communities (S3)"*** and ***"Consumers and end-users (S4)"*** topics.

DR	Paragraph	AR	Short description	DR	Paragraph	AR	Short description
DR S3-3 – Processes to remediate negative impacts and channels for affected communities to raise concerns.	24-28	*AR25	Information on whether and how the company has taken into account the communities' customs, traditions, norms and legal systems in providing resources.	DR S4-3– Processes to remediate negative impacts and channels for consumers and end-users to raise concerns.	22-26	*AR22	Describe whether claims are confidential and respect privacy and data protection rights.
		AR26	Information on the effectiveness of these channels from the perspective of the affected communities themselves.			AR23	Information on the effectiveness of these channels from the perspective of the affected communities themselves.
		AR27	Questions based on the "criteria for the effectiveness of non-judicial grievance mechanisms" set out in the UN Guiding Principles on Business and Human Rights.			AR24	Questions based on the "criteria for the effectiveness of non-judicial grievance mechanisms" set out in the UN Guiding Principles on Business and Human Rights.
DR S3-4 – Taking action on material impacts on affected communities, and approaches to mitigating material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions.	29-38	AR29	Consider whether the company causes the material impact, or whether the material impact is directly linked to a business relationship.	DR S4-4 – Taking action on material impacts, and approaches to mitigating material risks and pursuing material opportunities related to consumers and end-users, and effectiveness of those actions and approaches.	27-30 31a 32-36	AR26	Consider whether the company causes the material impact, or whether the material impact is directly linked to a business relationship.
		*AR31	Impacts arising from environmental management.				

//// TABLE 7 Proposal of re-ordering of DRs and ARs for ***"Affected Communities (S3)"*** and ***"Consumers and end-users (S4)"*** topics

DR	Paragraph	AR	Short description	DR	Paragraph	AR	Short description
DR S3-4 – Taking action on material impacts on affected communities, and approaches to mitigating material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions.		AR33	Examples by disclosing whether and how the company considers actual and potential impacts on affected communities in decisions to terminate business relations.	DR S4-4 – Taking action on material impacts, and approaches to mitigating material risks and pursuing material opportunities related to consumers and end-users, and effectiveness of those actions and approaches.	27-30 31a 32-36	AR29	Examples by disclosing whether and how the company takes into account actual and potential impacts on affected communities in decisions to terminate business relations.
		AR35	Processes used to monitor the effectiveness of actions.			AR31	Processes used to monitor the effectiveness of actions.
		AR36	Understanding the links between a company's actions and the effective management of impacts.			AR32	Understanding the links between a company's actions and the effective management of impacts.
		AR41a; AR41b	(a) Business risks related to the company's impacts on affected communities. (b) Business risks related to the company's dependence on affected communities.			AR37a; AR37b	(a) Business risks related to the company's impacts. (b) Business risks related to the company's dependence on affected communities.
		AR43	Considering external developments when reporting on business-community dependencies.			AR38	Considering external developments when reporting on business-community dependencies.
		AR45	Integration into existing risk management processes.			AR40	Integration into existing risk management processes.
DR S3-5 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities.	39-42	AR47	Considerations when disclosing objectives.	DR S4-5 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities.	37-40	AR42	Considerations when disclosing objectives.

↑ * The ARs in italics are specific to ***"Affected communities (S3)"*** and ***"Consumer and end-user (S4)"*** and are not found in, or similar to the other topic.

The *Appendix A*, of the new *"Section 3. Policies, targets, engagement and remediation"* is consistent with what we propose. Firstly, in contrast to the scarce development of the topics ***"Affected Communities (S3)"*** and ***"Consumers and End-users (S4)",*** a series of ARs are established on the policies, objectives, actions and processes applicable to these topics. Secondly, the requirements to be applied by LSMEs with respect to ESRS Set 1 S3 and S4 of large companies are significantly simplified. The latter is appropriate given the lower social and environmental impact of SMEs. Thirdly, some of the ARs are applicable to several topics, which reduces and avoids redundancies in the LSME ESRS (e.g. ARs 140 and 141). Finally, the sections on processes are not merged, as we propose, but, unlike version 2.1 of these topics (*S3 and S4),* the sections on policies and actions are unified, which simplifies the document. In conclusion, this *Appendix* brings together these considerations which would avoid the need to introduce and develop the specific standard sections on affected communities and consumers and end-users.

4.3 "*Business Conduct*"

At this point it should be noted that DR G1-1 – Corporate culture and business conduct policies is moved to "Section 2. General Disclosures" in LSME ESRS version 2.3.

The reading of the current draft shows, on the one hand, that, despite establishing the objectives, some of these DRs are not developed. Specifically, the objective set out in section f) on *animal welfare* in *DR2* is not developed. The existence of this DR in the LSME ESRS should be reconsidered, as it might not be applicable to certain companies. It could be developed in the sectorial standards.

The table of contents of the section needs to be updated, as it contains sections not included in the draft, such as ***DR G1-6 - Payment practices***, which has been incorporated in other sections. In version 3, this table of contents has already been updated.

Furthermore, the *DR G1- 1- Corporate culture and business conduct policies* develops two *items*, corruption and bribery on the other hand, and *whistle-blower* protection on the other. Corruption is dealt with in *DR G1-2*, so this duplication should be avoided. It seems appropriate that *DR G1-1* has been moved to *"Section 2. General Disclosures"*, but any duplication with respect to *DR G1-2* should be avoided. In version 3, this paragraph already appears in *Section 2*.

Regarding *Appendix B*, intended for the development of the ARs, not all the DRs set out in the draft are developed. Specifically, the criteria for disclosing the requirements under discussion on *DR GOV1 - The role of the administrative, supervisory and management bodies; DR IRO1 - Description of the processes to identify and assess material impacts, risks and opportunities and DR G1 - 1 Corporate culture and business conduct policies* are not yet developed. The fact that the ARs of some of the DRs are developed and not others may give rise to doubts as to the importance of disclosing the different DRs set out in the draft.

In version 3, the *DR GOV1 – The role of the administrative, supervisory and management bodies* has been moved to *"Section 2. General Disclosures"*, but it should be made more specific and in its ARs specify which possible bodies would be included, and the type of control expected. We believe it is appropriate to keep these DRs in *Section 2* because it is of great interest to analyse the control mechanisms and bodies for some stakeholders, such as investors, and it is not an excessive information requirement as Spanish companies disclosing sustainability information usually mention their supervisory bodies.

Finally, the ARs of this section have a more qualitative character than the ARs of *"Section 3. Environmental Disclosures"* and *"Section 4. Social Disclosures"*, which leaves the company the possibility of using different metrics and procedures, making it difficult to compare the information. In order to avoid or resolve this fact, metrics could be established, such as reporting on the number of incidents in the aforementioned areas (under study, in court, confirmed); number of anti-bribery or anti-corruption measures; number of convictions/ fines, negotiation and arbitration activities or some of those established for large companies.

Current Diagnosis

on Sustainability Disclosure of
Spanish Listed SMEs

Summary

Índice de tablas

1 Introduction

The LSME ESRS will be mandatory for those companies that:

- are small and medium-sized undertakings, which are public-interest entities according to point (a) of point (1) of article 2 of Directive 2013/34/EU and which are not micro-undertakings as defined in Article 3(1) of that Directive;
- are small non - complex financial institutions defined in point (145) of Article 4(1) of Regulation (EU) No 575/2013;
- captive insurance undertakings defined in point (2) of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council; and
- captive reinsurance undertakings defined in point (5) of Article 13 of that same Directive.

In the light of the foregoing, it is clear that some of the listed SMEs in Spain will have to prepare their Sustainability Report (SR) following this standard in the near future.

In this context, it is interesting to know the current situation of Spanish listed SMEs (hereinafter SLSMEs) in this respect in order to be able to determine the current state of sustainability disclosure made by these companies and, on the other hand, in order to highlight the greater or lesser effort that SLSMEs will have to make to comply with the LSME ESRS standard in the light of the results obtained.

To do so, and taking as a reference the the draft of LSME ESRS version 2.1 (published on 3 April 2023), we have analysed the five sections in which it is structured, we have broken down all the mandatory reporting requirements mentioned in these sections, and subsequently, we have verified whether these requirements appear in the current reports of SLSMEs, specifically in those refering to 2021.

2 Sample Selection

In order to identify the SLSMEs that will be affected by the LSME ESRS we have extracted a total of 119 SLSMEs from the SABI database of Bureau van Dijk. We have eliminated 45 companies of these because:

a. They have less than 10 employees (5 companies).

b. They have not published their Annual Accounts in 2021 (2 companies).

c. They are listed outside Spain (2 companies).

d. They are REITs (31 companies).

e. They are in liquidation and/or arrangement with creditors proceedings (5 companies).

Subsequently, a second filtering was carried out again for the remaining 74 companies, which led to the elimination of a total of 44 companies:

- either because they have more than 250 employees individually - there was only one case -, or
- either because, despite having less than 250 employees, they are the leader of a Group that presents consolidated information and the group has more than 250 employees, which is why they are already obligated to present the Consolidated SR and would not have to apply the LSME ESRS. We find 43 companies in this situation.

Consequently, once all the eliminations have been made, a total of 30 companies with between 10 and 250 employees which would be obligated to draw up the SR by applying the specific regulations for SLSMEs remains from the initial sample.

In order to identify what sustainability information these 30 companies currently disclose and how and where they include it, we conducted a content analysis of their websites and of the information published in the Spanish National Securities Market Commission (CNMV). The main obtained evidence is as follows:

a. A total of 10 companies reports sustainability information in 2021 (see Table 1), either by preparing the SR, individually or consolidated[1], or by including the information in the Integrated Report (IR).

1 This diagnostic was carried out considering LSME ESRS version 2.1 which did not specify that the LSME ESRS was intended for individual reports. Therefore, consolidated reports were considered as long as the group as a whole did not exceed 250 employees.

//// **TABLE 1** SLSMEs reporting sustainability information

Company	Group membership	Sector
REALIA BUSINESS, S.A.	Yes	Real Estate
INMOBILIARIA DEL SUR, S.A.	Yes	Real Estate
RENTA CORPORACION REAL ESTATE, S.A.	Yes	Real Estate
LIBERTAS 7, S.A.	Yes	Real Estate & Tourism & Investments
MONDO TV STUDIOS,	Yes	TV Productions
ENERSIDE ENERGY, S.A.	Yes	Engineering
SOLARIA ENERGIA Y MEDIO AMBIENTE, S.A.	Yes	Renewables
GRUPO ECOENER, S. A.	Yes	Electricity generation - Renewables
ORYZON GENOMICS. S.A.	No	Biotechnology
VYTRUS BIOTECH, S.A.	No	Biotechnology

b. Although they do not prepare a SR or a IR, 8 companies in the sample do include some reference to social, environmental and governance aspects on their websites (Table 2).

//// **TABLE 2** SLSMEs that do not publish a SR but disclose about sustainability on their webpages

Company	Sector
COMPAÑIA ESPAÑOLA DE VIVIENDAS EN ALQUILER, S.A.	Rental of flats
ALQUIBER QUALITY S.A.	Rental of vehicles
ASTURIANA DE LAMINADOS S.A.	Manufacture of zinc roofing
CLERHP STRUCTURES, S. A.	Engineering
GIGAS HOSTING, S.A.	Information technology
FACEPHI BIOMETRIA, S.A.	Information technology
ENERGIA, INNOVACION Y DESARROLLO FOTOVOLTAICO, S.A.	Renewables
LLEIDANETWORKS SERVEIS TELEMATICS, S.A.	Telecommunications

c. The remaining 12 companies in the sample do not disclose any sustainability information either in written documents or on their websites (Table 3).

//// **TABLE 3** SLSMEs that do not disclose sustainability information

Company	Sector
COMPAÑIA ESPAÑOLA DE VIVIENDAS EN ALQUILER, S.A.	Rental of flats
ALQUIBER QUALITY S.A.	Rental of vehicles
ASTURIANA DE LAMINADOS S.A.	Manufacture of zinc roofing
CLERHP STRUCTURES, S. A.	Engineering
GIGAS HOSTING, S.A.	Information technology
FACEPHI BIOMETRIA, S.A.	Information technology
ENERGIA, INNOVACION Y DESARROLLO FOTOVOLTAICO, S.A.	Renewables
LLEIDANETWORKS SERVEIS TELEMATICS, S.A.	Telecommunications
NYESA VALORES CORPORACION, S.A.	Inmobiliaria y venta de casas
JUNGLE21, S.A.	Publicidad
ROBOT, S.A.	Robótica
PARLEM TELECOM COMPANYIA DE TELECOMUNICACIONS, S.A.	Telecomunicaciones

To summarise, in 2021 only one third of the SLSMEs discloses Sustainability Information in a structured way, although with different scope and volume of content. We show the results obtained from the analysis of the content of the reports issued by the 10 companies for each of the sections in which the LSME ESRS is structured.

3 Section 1. General Requirements

In this section of general requirements, the LSME ESRS draft obligates SLSMEs to disclose information on issues related to ESRS compliance, double materiality, quality of information, value chain, and time horizon, among others. In Table 4 we present the items included in this section of the document and we indicate the companies that have provided that information.

//// **TABLE 4** Information disclosed by SLSMEs on Section 1. General Requirements

Content	No. of companies	Companies
1. Categories of disclosure		
1.1. Complying with LSME ESRS	6	Ecoener Enerside Insur Libertas 7 Realia Solaria
1.2. LSME ESRS structure and reporting areas	7	Ecoener Enerside Insur Libertas 7 Realia Renta Corporación Solaria
1.3. Topic section	0	
1.4. Entity-specific disclosure	9	Ecoener Enerside Insur Libertas 7 Oryzon Realia Solaria Renta Corporación Vytrus
1.5. Application of the disclosure content defined in section 2	0	
2. Qualitative characteristics of information	0	
3. Double materiality as the basis for sustainability disclosures		
3.1. Stakeholders and their relevance to the materiality assessment process	4	Ecoener Enerside Realia Solaria
3.2. Material matters and materiality of information	3	Enerside Realia Solaria

//// TABLE 4 Information disclosed by SLSMEs on Section 1. General Requirements

Content	No. of companies	Companies
3.3. Double materiality	2	Enerside Solaria
3.4. Impact materiality	2	Enerside Solaria
3.5. Financial materiality	2	Enerside Solaria
3.6. Material impacts or risks arising from actions to address sustainability matters	2	Enerside Solaria
3.7. Level of disaggregation	3	Enerside Realia Solaria
4. Value chain		
4.1. Reporting undertaking and value chain	4	Enerside Mondo TV Realia Solaria
4.2. Estimation using sector averages and proxies	0	
5. Time horizons		
5.1. Reporting period	9	Ecoener Enerside Insur Libertas 7 Oryzon Realia Renta Corporación Solaria Vytrus
5.2. Linking past, present and future	6	Ecoener Enerside Insur Realia Solaria Vytrus
5.3. Reporting progress against the base year	3	Ecoener Realia Solaria
5.4. Definition of short, medium and long-term for reporting purposes	3	Ecoener Enerside Insur
6. Preparation and presentation of sustainability information		
6.1. Presenting comparative information	4	Ecoener Enerside Libertas 7 Solaria
6.2. Sources of estimation and outcome uncertainty	0	
6.3. Updating disclosures about events after the end of the reporting period	0	
6.4. Changes in preparation or presentation of sustainability information	0	

//// **TABLE 4** Information disclosed by SLSMEs on Section 1. General Requirements

Content	No. of companies	Companies
6.5. Reporting errors in prior periods	0	
6.6. Consolidated reporting and subsidiary exemption	4	Ecoener Libertas 7 Realia Solaria
6.7. Information on intellectual property, know-how or results of innovation	4	Ecoener Enerside Oryzon Vytrus
7. Structure of sustainability statements		
7.1. General presentation requirement	0	
7.2. Content and structure of the sustainability statements	0	
8. Linkages with other parts of corporate reporting and connected information		
8.1. Incorporation by reference	5	Ecoener Enerside Insur Libertas 7 Solaria
8.2. Connected information and connectivity with financial statements	3	Enerside Realia Solaria

Next, we detail and expand the evidence obtained in each of the parts of Section 1.

a. Complying with LSME ESRS

The LSME ESRS draft covers the following SR areas: governance, strategy, impact and risk, and key metrics.

Materiality targets for impacts and risks in sustainability issues represent a major paradigm change at a practical level. Currently, the SRs of the analysed companies focus on positive aspects and, in general, do not report impacts, risks and their metrics. Any undertaking in the sample considered reports negative impacts and risks significantly. Those related to sustainable energy indicate the positive actions they take to mitigate or "remunerate" in some way the resources they use and the impact they have on communities. Likewise, the reports focus more on the objective of legitimising the actions of the companies and on disseminating policies and practices of attention to stakeholders. In relation to impacts, companies usually refer to issues related to recycling, and reduction of water and energy consumption, but they do not refer to emissions, ecosystem protection or circular economy due to the activity they carry out.

In terms of standards compliance, 5 companies use the GRI standards as a guide and add a table indicating the page where the information on the standard is included at the end of the report. Likewise, these same companies refer that the Sustainable Development Goals (SDGs) are a priority for the entity and implement policies around them.

In relation to issues related to Corporate Governance, all the SR of the companies in the sample refer to diversity on the Board of Directors, especially gender diversity, and to the

Corporate Governance structure. This is possibly due to the equal opportunities policies that have been implemented in Spain over the last decade and to the fact that this information is already required by the CNMV from listed companies in Spain, regardless of their size. However, there are still significant information gaps regarding employee representation on Boards of Directors, independent and non-executive members, the experience and training of Board members and the responsibilities assumed in terms of sustainability. Only two of the companies disclose full information on these aspects, although all of them refer to some aspect of Corporate Governance. Nevertheless, we believe that this information is easy to locate and disclose, so it will not be costly for companies to include it in the SR.

On the other hand, regarding strategy, all companies identify their key stakeholders. However, most of them do not develop aspects related to the business model, the value chain, and the impact and risk management. Impacts and risks are rarely mentioned and do not meet materiality criteria or reporting requirements.

b. Qualitative characteristics of information

The qualitative characteristics of the information (relevance and faithful representation) are difficult to measure, as they refer to externally measured indicators and which do not indicate how they have been calculated. Furthermore, the information provided on impacts and risks is insufficient.

On the other hand, only 3 of the analysed companies refer to results from previous years. Moreover, those that include historical information only do so in relation to some isolated metrics. In most cases, it is not possible to compare the environmental, social and corporate governance information disclosed over time. Specifically, only 3 of the reports provided information in reference to some sustainability ratios and indicators, but there is no explanation of how the measures are constructed in general, so the information does not meet the requirements of verifiability either.

c. Double materiality as the basis for sustainability disclosures

The LSME ESRS draft distinguishes between two main groups of stakeholders: affected stakeholders - groups that could be affected by the company's activity - and users of sustainability statements - investors, lenders, other financial providers and other partners of the company such as civil society, non governmmental organisations, governments, analyst and academics.

The analysed reports mention their affected stakeholders. Regarding the users of the financial statements, in general, the reports refer to investors; however, none of them mention other groups. The analysed companies report some community relations, generally through non-governmental organisations linked to corporate philanthropy activities.

The distinction of stakeholders made by the draft is due to the need to improve materiality in sustainable information. Most of the companies mention in a very generic way that they take their stakeholders into account in order to improve their processes and reduce the possible negative impacts of their operations, but only two of the companies detail the communication channels established to capture possible demands. Only two of them have carried out a materiality study. For example, Solaria carries out the materiality study through an internal and external analysis. This is based on questionnaires and on a study of documents to identify those issues that are of interest to its main stakeholders (although it does not identify who they are, nor does it detail the sample used).

Analysing the reports, we can affirm that the inclusion of stakeholders in the materiality assessment process is in its early stages, that they do not detail how the main affected groups are identified, and that the more advanced reports only reflect the channels they make available to their stakeholders (mostly based on information and communication technologies, such as corporate websites and intranet). However, none of the reports details the process for identifying negative impacts in order to achieve the objectives of the SR.

On the other hand, in relation to the content, it can be stated that there is no balance in the information presented. The majority of SLSMEs reports on positive social and environmental impacts of their operations. Less than half of the SR analysed reports on negative impacts and sustainability risks. Only two of the reports mention potential risks, and only one of them mentions a study to determine its level of environmental performance. Furthermore, in none of the cases does the information on impacts and risks determine their severity in the terms defined by the draft, namely: scale, scope and irremediable character of the impact.

Therefore, the information currently presented can be classified as not relevant in terms of its ability to explain the impacts and risks caused by the company and its ability to improve decision-making or transparency towards stakeholders.

With regard to the principle of double materiality, none of the analysed reports complies with this requirement, as the material impact of the operations is not included and there is not any financial materiality, although three of them refer to the specific funding obtained for their activity (related to sustainable energies) and indicate the entity's solvency to face investments.

On the other hand, there is no interdependence between sustainable and financial information, unless sustainable investments are included in the object of the company. At present, companies present financial ratios in their SR that are not linked to sustainable information. For example, some of the reports mention the amounts of cash mobilised for corporate philanthropy and green projects. In this sense, the separation of financial and sustainability information does not facilitate to show double materiality.

In general, the analysed reports do not specify risks and impacts, but almost all of them mention specific circumstances of the context in which they operate that may increase risks. However, this risk is more related to the financial performance of the company and the market and is not linked to sustainability issues. Furthermore, the disclosed information does not meet qualitative reporting requirements. The few metrics that may appear in reports on certain circumstances that increase the likelihood of negative environmental, social or governance impacts are not sufficiently reliable, referring to secondary data or expressing poorly substantiated opinions. In social and community development matters, entities operating in Latin American markets provide a greater volume of information on their actions in those countries.

None of the reports shows any interdependencies between the company's sustainable operations and its potential negative impacts and risks on other sustainability issues.

Disaggregation of information by country/area is only done for one report and it refers only to financial metrics.

d Value chain

The LSME ESRS will require companies to disclose those material impacts and risks generated in the value chain.

In the analysed reports, only 4 companies mention their value chain regarding sustainability issues and disclose aspects related to positive actions or desires to reduce the impacts of their operations along the chain. One of them mentions audits done to its suppliers. Only one of the companies mentions possible partnerships, but the information is vague and does not meet the requirements outlined in the draft.

Due to this underdevelopment of value chain impacts and risks in the analysed reports, companies will require a great deal of quantitative and qualitative effort to report on impacts and risks along the value chain. This will be further compounded as the draft of the standard requires not only the information to be related and consistent with the corresponding financial statements, but also the company to disclose information on third party companies and partnerships. Also, showing value chain information will be more difficult for certain sectors such as the financial sector, where the value chain is not clearly delineated.

e. Time horizons

The SR is mostly referred to the same financial year as the financial information report.

The information they present refers to a single financial year. Only 3 companies compare some indicators with respect to previous financial years. Another 3 set emission reduction targets for future years. But none of the reports use base years for indicators.

Reports, apart from those of 3 companies, do not usually set objectives in a specific time horizon. They do not use their own definitions of short, medium and long term despite the fact that some companies have an operating cycle that does not correspond to a calendar year, e.g. real estate companies whose main activities are carried out over the long term.

f. Preparation and presentation of sustainability information

Section six of the standard requires the disclosure of one year of comparative information for all metrics disclosed in the current period. As noted above, the SRs do not present metrics that reliably measure sustainability impacts and risks, and only 3 of the companies present comparative information on some specific indicators with respect to previous years. One of these reports refers to the Grebz ranking and compares the results of the last three financial years with a single indicator.

Any report discloses changes in the used metrics or reports changes made in the disclosure of sustainability information compared to previous periods. This complicates comparing the sustainability of the information over time.

As mentioned in the value chain section, reports do not disclose impacts and risks, nor do they report estimated information or information drawn from secondary sources, so no sources are established and the possible uncertainty of the metrics is not highlighted.

Likewise, no reference is made to conditions occurring after the closing period that may affect the information disclosed. No potential reporting errors in prior periods are reported.

Biotechnology and renewable-energy companies collect information about their intellectual property, and knowledge and innovation results. More specifically, one of the cosmetics companies reports two products as results of their research, and another one details the development of clinical trials. The other sectors do not provide information about intellectual property, know-how or results of innovation.

g. Structure of sustainability statements

The structure of the analysed SRs is not homogeneous. In this respect, the LSME ESRS may provide an opportunity to achieve a more homogeneous sustainability disclosure in terms of structure and content. We believe that it will significantly improve comparability and clarity of the disclosure.

At present, SRs do present various sections that make it possible to distinguish the different dimensions of sustainability, which facilitates the understanding of the information presented. It is true that the sector in which the company operates seems to influence the length and structure of the reports. In this way, companies in the energy sector present a greater amount of information and usually refer to generally accepted standards such as GRI and take as a reference some of the aspects proposed in the regulations on non-financial information and integrated reporting. The reports mostly present information about the three dimensions of corporate sustainability.

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

As a result of the materiality of sustainable information principle, the LSME ESRS establishes the need to present connections between the information contained in the financial statements and in the SRs. In this way, sustainability information could refer to the content of other reports, such as the Management Report, the Financial Statements, the Corporate Governance Report, among others. In addition, reference could be made to the Eco-Management and Audit Scheme (EMAS) report. However, these parts of the draft are optional for the company. The unique requirement is to ensure cohesion and not to impair readability by including such references.

The draft of LSME ESRS also mentions that the information could also be linked to financial information. This is presented as an option for companies, which, in the case of presenting monetary amounts and other quantitative data, should establish clear and concise references in line with the standard, including references to the paragraph in the accounting statement where such information can be found.

This optionality could cause that many companies do not disclose quantitative information or do not refer to other financial information. In the analysed reports, only 2 companies present quantitative information referring to the expenditure of their philanthropy activity.

4 Section 2. General Disclosure

Table 5 shows the content included in the LSME ESRS about General Disclosure as well as the companies that disclosed such information in their reports in 2021.

//// **TABLE 5** Information disclosed by SLSMEs on Section 2. General Disclosures

Content	No. of companies	Companies
1. BASIS FOR PREPARATION		
DR BP-1 - General basis for preparation of the sustainability statements	5	Enerside Insur Libertas 7 Realia Solaria
DR BP-2 - Disclosure in relation to specific circumstances	5	Enerside Insur Libertas 7 Realia Solaria
2. GOVERNANCE		
DR GOV-1 - The role of the administrative, management and supervisory bodies		
Composition and diversity:		
Executive-non executives	7	Ecoener Enerside Insur Libertas 7 Mondo TV Realia Solaria
Representation of employees and other workers	0	
Experience relevant to the sectors, products and geographic locations	6	Enerside Libertas 7 Oryzon Realia Solaria Vytrus
Percentage by gender and other aspects of diversity	8	Ecoener Enerside Insur Libertas 7 Oryzon Realia Solaria Vytrus

//// **TABLE 5** Information disclosed by SLSMEs on Section 2. General Disclosures

Content	No. of companies	Companies
Percentage of independent board members	7	Ecoener Enerside Insur Libertas 7 Mondo TV Solaria
Roles and responsibilities:		
Identify of bodies	8	Ecoener Enerside Insur Libertas 7 Mondo TV Realia Renta Corporación Solaria
Description of management's role in assessing and managing impacts and risk	4	Ecoener Enerside Realia Solaria
How the bodies oversee the setting of targets related to material impacts and risk, and how monitoring the progress toward them	2	Enerside Realia
A brief description of how the bodies ensure the availability of the appropriate skills and expertise to oversee sustainability matters	2	Enerside Realia
How it relates to the undertaking's material impacts, risks and oportunities	0	
Expertise on sustainability matters	1	Enerside
Role of theses bodies related to business conducts		
Expertise of theses bodies on business conducts matters	0	
DR GOV-2 - Sustainability due diligence		
Information on how and where the sustainability due diligence process is reflected in its sustainability reporting	5	Enerside Libertas 7 Oryzon Realia Solaria
If the undertaking has not adopted it, it shall disclose the case	0	
3. STRATEGY		
DR SBM-1 - Market position, strategy, business model(s) and value chain		
A description of significant groups of products and/or services offered, including changes in the reporting period	7	Ecoener Enerside Libertas 7 Mondo TV Realia Solaria Vytrus

//// **TABLE 5** Information disclosed by SLSMEs on Section 2. General Disclosures

Content	No. of companies	Companies
A description of significant markets and/or consumer, including changes in the reporting period	8	Ecoener Enerside Insur Libertas 7 Mondo TV Realia Solaria Vytrus
A description of headcount of employees by geographical areas	5	Ecoener Enerside Insur Libertas 7 Solaria
A description of where applicable and material, products and services under bans	1	Solaria
The list of significant ESRS sectors in which it operates	5	Ecoener Enerside Insur Libertas 7 Mondo TV
Where applicable, a statement indicating, together with the related revenues, that the firm is active in the fossil fuel and chemicals productions	0	
Its sustainability related goal in terms of group of products and services, customer categories, geographical areas and relationships with stakeholders	3	Renta Corporación Solaria Vytrus
An assessment of its current market positions in relation to its goals	2	Solaria Realia
A description of its business model(s) and value chain, including its inputs, outputs, and outcomes (in terms of current and expected benefits for its stakeholders) and the main feature of value chain, including business actors	4	Enerside Mondo TV Solaria Realia
DR SBM-2 - Interests and views of stakeholders		
If engagement with stakeholders occurs, the undertaking shall disclose a summarized description:		
Categories of stakeholder engaged, how stakeholder engagement is organized, its purpose and how its outcomes are taken into account	6	Enerside Libertas 7 Realia Renta Corporación Solaria Vytrus
How interests and view of stakeholders are related to strategy and business model(s) (See DR IR-1 of this section)	0	
DR SBM-3 - Material impacts and risks and their interaction with strategy and business model(s)		
Disclosure of material impacts and risks resulting from the materiality analysis, together with a brief description The disclosure shall include:	0	
Time horizons for those effects	1	Enerside

//// **TABLE 5** Information disclosed by SLSMEs on Section 2. General Disclosures

Content	No. of companies	Companies
Whether material impacts are caused by activities or relationships in value chain	0	
How impacts are connected to strategy and business model	1	Solaria
How material risks relate to the undertaking could have financial effects, including affecting its business model(s) or strategy, and time horizons for those effects	1	Solaria
The effects of material impacts and risks on the strategy and decision-making, including how the undertaking is responding to these effects	3	Enerside Realia Solaria
The financial effects of material risks, specifically:	0	
The current and anticipated effects of material risks on its busines model and value chain	0	
A description of where in its value chain material risks are concentrated	2	Enerside Realia
How material risks have affected the reported financial performance, financial position, cash flows	2	Realia Solaria
Changes in financial performance, cash flows, and financial positions over time under the effects of material risks	0	
Changes to the material risks compared to the previous reporting period	3	Enerside Realia Solaria
Specification of those impacts and risks that are covered by draft as opposed to these covered by additional entity specific disclosure	0	
Voluntary Disclosure SBM-4- Material opportunities		
Financial opportunities that have or are likely to have financial effects	4	Oryzon Realia Solaria Vytrus
A description of the opportunity, how it originates, the sustainability matter to which it is linked and time horizon	3	Oryzon Realia Solaria
How it results in financial effects	0	
The actions that the undertaking has put or plans to put in place to pursue the opportunity	1	Solaria
4. IMPACT AND RISK MANAGEMENT		
4.1. DISCLOSURE ON THE MATERIALITY ASSESSMENT PROCESS		
DR IR-1- Description of the processes to identify and assess material impacts and risks		
An overview of the process to identify, assess and prioritise the undertaking potential and actual negative impacts based on their relative severity and likelihood	2	Enerside Realia
An overview of the process used to identify, assess and prioritise sustainability related risks that have or may have financial effects	0	

//// TABLE 5 Information disclosed by SLSMEs on Section 2. General Disclosures

Content	No. of companies	Companies
An explanation of how the undertaking has determined the material information related to its material impacts and risks, including the use of criteria of section 1 chapter 3.2.	1	Enerside
Describe the process to identify an assess material impacts and risks in relation to the following matters:		
Environment matters		
a) Climate change (emission, physical and transition risks)	3	Enerside Libertas 7 Solaria
b) Pollution (methodologies, assumptions and topics used to screen its site locations and business activities in order to identify actual and potential pollutions risks) and affected communities	2	Ecoener Solaria
c) Water and marine resources (methodologies, assumptions and topics...)	1	Solaria
d) Biodiversity and ecosystems (assessment criteria applied, systemic risks to business or society, affected communities, time horizon, how it analysis scenario)	0	
e) Resource use and circular economy (methodologies, assumptions and tools used to screen its assets and activities in order to identify its actual and potential risks) and affected communities	1	Solaria
Social and human rights matters		
f) Own workforce		
Description of workers subject to material impacts, whether they are workers or third parties or suppliers.	3	Enerside Insur Solaria
Description of whether the risk is systematic or linked to a context or linked to individual accidents.	0	
Material risks for the company derived from its workforce, risks for the worker derived from plans to reduce the material impact. Impacts, risks and opportunities arising from job creation. Operations with a high risk of accidents.	0	
Operations with risk of child labor - by type of operation or region where the company operates	0	
g) Workers in the value chain	0	
Impacts on workers in the value chain derived from the strategy and business model	0	
Dependency relationships with workers in the value chain	0	
A brief description of the types of workers, including possible situations of vulnerability	0	
Any geographic or other factor that poses a significant risk of child labor	0	
h) Affected communities		
Types of communities	4	Ecoener Enerside Mondo TV Solaria

//// TABLE 5 Information disclosed by SLSMEs on Section 2. General Disclosures

Content	No. of companies	Companies
In case of material negative impacts, whether they are widespread or systematic in contexts or whether they are related to individual incidents	0	
How affected communities with a particular characteristics or those living in particular contexts	1	Solaria
i) Consumer and/or end-user		
Types of consumers	3	Insur Mondo TV Realia
Products inherently harmful	0	
Services with potentially negatively impact on rights to privacy, personal data protection, freedom of expression and non-discrimination	0	
Consumer or user who are dependent on accurate and accessible product related information, such as manual and product labels, to avoid potentially damaging use of products	1	Realia
Consumer particularly vulnerable to health or privacy impacts	0	
In case of material negative impacts, whether they are widespread or systematic in contexts or whether they are related to individual incidents	0	
Any material risks for the business arising from impacts and dependencies on consumers and users	0	
Potential financial effects of material risks arising from environmental related impacts	0	
A quantification of the potential financial effects in monetary terms, or where impracticable qualitative information	0	
A description of the effects considered, the impacts to which they relate and the time horizons	0	
The critical assumptions used in the estimate, as well as the sources and the level of uncertainty	0	
Financial effects	0	
For potential financial effects arising from material physical and transition risk and potential climate-relate opportunities, the undertaking shall refer to DR E1-5 in topical section 3 of this draft	0	
4.2. REPORTING ON SUSTAINABILITY TOPICS COVERED		
DR IR-2 - Topics covered by the undertaking's sustainability statements		
Include a list of the disclosure requirements complied with in preparing the sustainability statements, following the outcome of the materiality assessment	7	Ecoener Enerside Insur Libertas 7 Oryzon Realia Solaria
When all the disclosure requirements in a topical section are omitted as the topic is assessed no to be material for the undertaking, undertaking shall report a brief explanation of the conclusions of its materiality assessment for the topic	0	

//// TABLE 5 Information disclosed by SLSMEs on Section 2. General Disclosures

Content	No. of companies	Companies
4.3. REPORTING ON POLICIES, ACTIONS AND TARGETS		
DR IR-3- Policies adopted to manage material sustainability matters		
Polices adopted to manage climate change irrespective of the outcome of its materiality assessment, following the content of this disclosure requirement related to climate change	4	Ecoener Enerside Libertas 7 Solaria
Information about other topics only when it concludes that such topic is material	0	
Disclosure do not disclosure adopted policies	0	
Disclosure polices it has adopted to manage its material impacts and risks related to:	0	
a) Environmental matters	4	Ecoener Enerside Insur Solaria
b) Social and human right matters	5	Ecoener Enerside Insur Solaria Realia
DR IR-4 - Actions and resources to manage material sustainability matters		
Information on its actions implemented to manage climate change irrespective of the outcome of its materiality assessment, following the content of this disclosure requirement related the climate change	6	Ecoener Enerside Insur Libertas 7 Realia Solaria
Information about other topics only when it concludes that such topic is material	0	
Disclosure do not disclosure adopted actions	0	
Disclosure its actions and resources related to:	0	
a) Environmental matters	5	Ecoener Enerside Insur Realia Solaria
b) Social and human right matters	5	Ecoener Enerside Insur Realia Solaria
Disclosure the following information for each identified actual or potential material negative impact:	0	
a) List of key actions taken in the reporting year and planned for the future, and their expected outcomes	1	Ecoener
b) The scope of the key actions	1	Ecoener

//// TABLE 5 Information disclosed by SLSMEs on Section 2. General Disclosures

Content	No. of companies	Companies
c) The time horizons under which the undertaking intends to complete each key actions	1	Ecoener
d) if applicable, key actions taken to provide for an cooperate in or support the provision of remedy for those harmed by actual material impacts	0	
e) If applicable, quantitative and qualitative information regarding the progress of actions or action plans disclosed in prior periods	0	
Explanatory information, where the ability to implement the actions or action plan depend on specific reconditions (e.g. Financial supports)	0	
Explain how significant monetary amounts relate to the most relevant amounts presented in the financial statements	0	
DR IR-5 - Targets to manage material sustainability matters		
When the undertaking has set targets, it shall disclosure the following information:		
a) Environmental matters	3	Enerside Insur Solaria
b) Social and human right matters	2	Enerside Insur
DR IR-6 - Processes for engaging with own workers in the value chain, affected communities, consumers and end-users, and their representatives about impacts		
The undertaking shall disclosure wheather and how the perspectives of its own workforce, workers in the chain value, affected communities, and consumer and end-user inform its decisions or activities aimed at managing the actual and potential material impacts on them	4	Enerside Oryzon Realia Solaria
This shall include an explanation of:		
Whether engagement occurs directly or their legitimate representatives, or with credible proxies that have insight into their situation	2	Enerside Realia
The stages a which engagement occurs, the type of engagement and frequency	0	
Where applicable, any agreements that the undertaking has with worker's representatives related to the respect of human rights, any agreements that the undertaking has with global union federations related to the respect of human rights of worker in chain value.	1	Solaria
DR IR-7 - Processes to remediate negative impacts and channels for own workers, workers in the value chain, affected communities, consumers and end-users to raise concerns		
Describe the process in place to cover the matters defined. Objective section by disclosing the following information:		
a) Its approach to and processes for providing or contributing to remedy, including whether and how the undertaking assesses that remedy provided is effective	0	
b) Channels it has in place to raise their concerns or needs, or if the undertaking participates in any industry wide initiative that provides such a channel	2	Insur Realia
If the undertaking has not adopted a channel for raising concerns, it shall disclose this to be the case	0	

a. Basis for preparation

The objective of the requirements in this section is to understand how the company prepares its SRs.

To that end, the standard requires the company to report whether the information it presents is at company or at group level, and whether the scope of the sustainable consolidated information is the same as that of the financial information. In this case, based on the analysed reports, companies report whether the information is at group or at individual[2] level.

On the other hand, the standard requires the company to report on the coverage of the value chain (whether it omits information upstream or downstream); whether it omits information about intellectual property; or whether it has used the disclosure exception about "disclosure of impeding developments or matters in the course of negotiation". None of the reports analysed (SLSMEs) mention these facts.

In addition, with respect to information requirement ***BP-2 - Disclosures about specific circumstances***, companies often contextualise information in relation to specific circumstances such as their main activity, growth situation, recent stock exchange listing, etc. Regarding time horizons, value chain estimations, sources of estimations and outcome uncertainty, changes in the preparation and presentation of information, and other disclosure presented in relation to generally accepted norms and standards, the draft LSME ESRS refers to Section 1, which we have already discussed.

b. Governance

Firstly, the LSME ESRS establishes the need to disclose information about the diversity and composition of corporate governance bodies. In this regard, it establishes the need to disclose their composition in terms of executive and non-executive members; employee representation; experience or background in the sector, product or area; gender and other diversity; and independent members in the Board of Directors.

The reports about the level of detail of gender diversity in the composition of the Board (8/10) are of particular note. In addition, a significant number (6/10) of the companies mention the previous experience and training of their Board members. However, only 3 provide data or verifiable qualitative information. To a lesser extent, companies provide information about employee representatives. Finally, in 7 cases companies have identified independent board members.

With regard to the paragraphs of the standard referring to roles and responsibilities, 8 reports include information about bodies or committees established to manage sustainability issues such as CSR Committees, Health and Safety Committees, Audit Committees, Ethics Committees, etcetera. However, in a much lower proportion, only 2 companies explain the responsibilities assumed by these committees, and only one report details how these bodies oversee and monitor impacts and risks. Information about the experience of their members or about their influence in business and corporate affairs is not provided neither.

2 This diagnostic was carried out considering LSME ESRS version 2.1 which did not specify that the LSME ESRS was intended for individual reports. Therefore, consolidated reports were considered as long as the group as a whole did not exceed 250 employees.

c. Strategy

Most companies provide a brief description of the products they offer, the markets and their consumers. Half of them provides a description of employees by geographic area. They also mention, very broadly and without any detail, sustainability objectives respecting to some of their stakeholders.

Except for 1 company, all of them mention their main stakeholders, but do not categorise or develop them. All sustainability reports mention the importance of fostering stakeholder relations, and many of them talk about the establishment of communication channels that captures stakeholder demands in terms of organising engagement and participation mechanisms. On the other hand, there are four companies that point out the importance of taking their stakeholders into account and of integrating their demands into the business strategy.

Information about stakeholder participation is presented as an opportunity to improve the competitive position thanks to the offer of sustainable products as a proposal to identify, avoid or diminish possible risks and impacts of business activity. Nevertheless, only one of the reports makes reference to how the company's activities could affect sustainability in terms of risks and impacts, but only as a mere mention and without meeting the reporting requirements set out in Section 1.

Regarding the opportunities presented, they are not valued in financial terms, the principle of double materiality is not accomplished, and the relevant information about the opportunity is not provided: e.g. no time horizon or planned actions to achieve it are determined. Most opportunities are only mentioned.

d. Impacts and risks

Among others, Section 1 defines the following concepts: processes, policies, actions, metrics and targets. The reports use definitions that are in line with those given in the LSME ESRS.

Regarding impacts and risks, SLSMEs do not report on the process of identifying and assessing potential and actual risks and impacts based on the severity and likelihood criteria in Section 1, and they do not report on how they prioritise risks and impacts or how companies determine material information regarding risks and impacts neither.

SLSMEs that mention their processes for identifying and assessing material impacts and risks do so in relation to the following issues: financial reporting processes (6/10). Less than half of the companies (4/10) report on other types of processes and most refer to processes related to operations and human resources. Regarding the workforce, the selection and promotion processes under principles of equality and justice are mentioned. However, it does not identify possible workers who could suffer harm, nor the activities of greatest occupational risk, and it does not include other information on human rights required by the LSME ESRS. There are only 2 companies that disclose, in a generic way, the establishment of a control model to assess risks based on their evaluation and probability, but only one of them expressly states that with this system it aims to avoid environmental and reputational damage and impacts.

In terms of policies, the LSME ESRS requires the disclosure of information relating to policies adopted on climate change management. The company must disclose other sustainability issues if they are material. The analysed SRs present CSR, ethics and sustainability policies, but these policies are only developed in 4 cases.

The policies that are most widely disseminated are related to corporate governance, such as anti-corruption, equality, tax and transparency policies. Regarding currently adopted and disclosed policies related to the environment, they report on more environmentally friendly products (a real estate company that builds more sustainable buildings, local-architecture friendly, and more efficient in terms of emissions and energy). Few reports mention policies on resource efficiency, biodiversity protection, and the promotion of a circular economy. Specifically, they report those related to clean energy. With regard to workers, there are references to health and safety policies. Regarding communities, one of the companies mentions policies related to the allocation of financial resources to its foundation.

Finally, in the SRs, companies disclose information related to resources and actions to improve sustainability in environmental, social and human rights issues. Nevertheless, they do not usually report on actions or plans to identify, control, prevent, mitigate or solve actual or potential negative impacts. As noted in the section on materiality, companies do not report on their impacts and risks and, therefore, they do not disclose processes, resources and actions to manage them.

5 Section 3. Environment

In general, after looking at the content required by the LSME ESRS and what the companies in the sample disclose, we note that there is a relevant absence of the content that is intended to be required in the version 2.1 of the draft. The three renewable energy companies (Ecoener, Enerside and Solaria) are those that disclose more information. The only one that follows the LSME ESRS more closely is Enerside.

In the rest of the cases, companies basically make a declaration of intent of their commitment to the environment, but they do not explicit their sustainability and energy transition plans.

The metrics used by companies are basic and simple, almost limited to energy, water and paper consumption, and only in four cases GHG Scopes 1, 2 and 3. are measured.

Any report shows any indication of the short-, medium- and long-term financial effects of environment-related risks and opportunities.

There is no mention of the identification of material risks in any of the reports neither.

In most cases, past, present and future efforts to prevent and/or mitigate negative impacts are not reported. Some companies like Mondo TV do indicate some measures such as replanting trees.

The metrics used and the companies that include them in their SRs could be seen in Table 6 for each of the topics and disclosure requirements.

//// **TABLE 6** Information disclosed by SLSMEs about Section 3. Environment

Topic	DR	Metrics used	No. of companies	Companies
E1. Climate change	Energy consumption and mix	Total energy consumption from renewable sources	3	Ecoener Enerside Solaria
		Total energy production (GWh/year)	1	Ecoener
		Total energy consumption	6	Ecoener Enerside Insur Libertas 7 Real Estate Solaria
		Total energy consumption from fossil sources	3	Ecoener Enerside Solaria
	Gross scopes 1,2,3 and Total GHG emissions	Gross Scope 1 GHG emissions	3	Ecoener Enerside Solaria
		Gross Scope 2 GHG emissions	3	Ecoener Enerside Solaria
		Gross Scope 3 GHG emissions	2	Enerside Solaria
		Total GHG emissions	4	Ecoener Enerside Insur Solaria
	GHG removals and GHG mitigation proyects financed through carbon credits	GHG removals CO_2 emissions	2	Ecoener Solaria
E2. Pollution			0	
E3. Water and marine resources	Water consumption	Water consumption	5	Ecoener Enerside Insur Libertas 7 Solaria
E4. Biodiversity			0	
E5. Resource use and circular economy	Resource inflows	Paper consumption	5	Ecoener Enerside Insur Libertas 7 Solaria
		Tonner consumption	1	Ecoener
	Resource inflows	Total amount of wasted generated	2	Enerside Solaria
		Waste classification (type of waste; hazardous and non-hazardous waste)	2	Ecoener Solaria

None of the companies in the sample include the information required in the standard in relation to ***"Pollution (E2)"*** in their SRs. In fact, they do not present any metrics on these issues.

Under the topic ***"Water and marine resources (E3)"*** only 5 SLSMEs report on water consumption. Some of the companies make a breakdown of the water used in offices and facilities, and some of them compare it with a previous year. In this respect, there is no mention of water consumption from areas with water stress problems. They do not indicate the methodologies used for calculating it nor the part of the estimates that is actual consumption neither.

Regarding ***"Biodiversity and ecosystems (E4)"***, only one of the SLSMEs mentions it, but in a very generic way. In this respect, this company's report explains the general policy and indicate that an environmental impact report and an environmental and landscape integration plan are drawn up before to carrying out projects. In this sense, it gives an example of a project and specifically assesses the measures that were carried out.

Finally, with regard to ***"Circular Economy (E5)"***, half of the SLSMEs report on paper consumption, although only one reports on some other material consumption, in particular toner.

On the other hand, only 2 companies estimate the waste generated and differentiate it, although they are based on different criteria. Only in one case a comparison with the previous year is presented.

6 Section 4. Social

The LSME ESRS sets out four topics on which SLSMEs should include information in the SR referring to issues related to the company's employees, employees of companies in the value chain, affected communities and, finally, consumers and users.

Regarding the information included in the analysed reports on these issues, the main evidence obtained is included in Table 7.

//// TABLE 7 Information disclosed by SLSMEs on Section 4. Social

Topic	DR	Metrics used	No. of companies	Companies
S1. Own workforce	Characteristics of the undertaking's employees	Total number of employees	7	Ecoener Enerside Insur Libertas 7 Mondo TV Realia Solaria
		Total number of employees breakdown by country	3	Ecoener Enerside Solaria
		Total number of employees breakdown by gender	5	Enerside Insur Libertas 7 Mondo TV Solaria
		Percentage of employees breakdown by full-time and part-time	3	Ecoener Enerside Solaria
	Characteristics of non-employee workers in the undertaking's own employees		0	
	Collective bargaining coverage and social dialogue	Percentage of employees covered by collective bargaining agreement	1	Solaria
		Current collective bargaining agreement	3	Ecoener Libertas 7 Solaria
	Adequate wages	Average wages	1	Solaria
	Social protection	Total number of employees covered by social protection	1	Insur

//// **TABLE 7** Information disclosed by SLSMEs on Section 4. Social

Topic	DR	Metrics used	No. of companies	Companies
S1. Own workforce	Training and skills development indicators	Average number of training hours per employee	4	Enerside Insur Libertas 7 Solaria
		Total number of training hours per year	4	Enerside Insur Libertas 7 Solaria
		Average number of training hours per professional category	1	Libertas 7
	Health and safety indicators	Average number of work-related injuries per non-employees in the undertaking's own force	3	Ecoener Libertas 7 Solaria
		Average numbers of Incidents per year	1	Ecoener
		Average number of incidents per non-employees in the undertaking's ownn force	1	Solaria
	Compensation indicators (pay gap and total compensation)	Gender pay-gap	2	Libertas 7 Solaria
	Incidents, complaints and severe human rights impacts and incidents	Total number of complaints	1	Libertas 7
	Diversity indicators (*)	Percentage of employees at top level management breakdown by gender	4	Insur Libertas 7 Mondo TV Solaria
		Percentage of employees at top level management breakdown by age	4	Insur Libertas Mondo TV Solaria
		Percentage of disabled employees	1	Libertas 7
	Work-life balance indicators (*)	-----	0	

(*) Voluntary.

At the general level of each topic, it is worth noting that the most disclosed content is related to the employees themselves.

Regarding the detailed analysis of the information included in the reports in relation to **"Own workforce/own workers (S1)",** we highlight several issues.

In general, most companies do not comply with the S1.1 information requirement on workforce characteristics. In 7 companies (SLSMEs), information on the number of employees is included, in 5 companies it is broken down by gender, and only in 3 companies it is segmented by country and the percentage of full-time and part-time workers is indicated. However, the methodologies used for the calculation are not mentioned in any case.

With regard to the sub-topic "Collective bargaining coverage and social dialogue", most SLSMEs do not comply with this information requirement. Only one company (Solaria) discloses information about the applied agreements and the percentage of workers covered by them. Only three companies disclose information about some applicable agreements, one of which (Libertas 7) does not indicate the percentage, but it does indicate the number of workers covered by these agreements.

Regarding "Adequate wages", it should be noted that this information requirement is not present in the company reports. Half of the companies disclose this information, but only state that they have an equal and fair remuneration policy. However, they do not provide data that would allow us to contrast these facts. Only one company provides information about average amounts paid.

On the other hand, 8 companies mention "Social Protection" and state that they have health insurance. Only 1 company mentions that it provides health insurance in those countries where there is no public health insurance. Furthermore, only Insur gives information about the number of workers covered by such insurance. However, there is no information about the insurance coverage, nor about whether workers are covered for sick leave, unemployment, job loss, maternity leave or retirement.

Regarding the requirement to disclose information about training and education programmes for employees, 8 companies mention that they have training plans or training days. However, only 4 companies (Enerside, Insur, Libertas 7 and Solaria) mention the number of training hours and the average number of hours per employee. And of these, only Libertas 7 makes a breakdown of training hours by professional category. Nevertheless, none of them give a breakdown of average training hours by gender.

In case of the "Health and safety indicators", 8 companies mention their occupational risk prevention systems, but only Ecoener, Libertas 7 and Solaria disclose the number of occupational accidents. In the case of Solaria, information is provided on whether these accidents involve contracted or subcontracted staff. Enerside and Insur do not report the total number of occupational accidents, only serious ones. Only Ecoener measures the ratio of accidents.

No company in the sample discloses information about the number of working days lost due to accidents or common illness of its workers.

Regarding the "Compensation indicators (Pay gap and total compensation)" 2 companies mention the gender pay gap. None of them refers to compensation policies or measures.

Only one company discloses incidents, complaints, and severe impacts of human rights abuses.

The inclusion of "Diversity indicators" (voluntary) in the reports is rather poor. Of the companies analysed, 4 disclose information on the percentage of workers distributed by gender and age. Only 2 companies provide information on the number of workers with disabilities in the workforce, and one of them does not calculate the percentage and states that it has 1 worker with more than 33% disability (Mondo TV).

On "Work-life balance indicators" (voluntary) SLSMEs´ SRs mention the degree of compliance with social security legislation and the employee welfare and work-familiar life balance policies in a generic way. No company discloses information about the percentage of employees covered by family benefits.

In view of the information disclosed in the SRs of SLSMEs on ***"Own workforce/own employees (S1)"***, it can be noted that companies disclose information on these requirements, but do not comply with the AR of the LSME ESRS draft. The analysis carried out suggests that these companies can meet these requirements as they have internal information on these items, and it would not be a significant effort for them.

As regards ***"Value chain workers (S2)"***, currently no SLSMEs complies with the DR of the draft. We can mention some brief and simple references in the SRs. In this way, Ecoener refers to avoiding risks by establishing policies regarding suppliers and the protection of human rights. Enerside, for its part, establishes monitoring and compliance human rights policies. In the case of Libertas 7, it indicates that its suppliers comply with labour legislation. Solaria mentions their responsible management of the value chain. However, the difficulty of disclosing information from third parties and the few developments of current standards may explain this lack of information about workers in the value chain.

Regarding ***"Affected communities (S3)"***, 8 SLSMEs develop a policy statement towards communities and mention the need to establish relations with them. However, only 3 companies indicate how managing risks and impacts on communities (Ecoener, Realia and Solaria). Nevertheless, in no case are the material information requirements accomplished.

Finally, with regard to ***"Consumers and users (S4)"***, only 2 of the SLSMEs mention systems to prevent damage (Solaria and Libertas 7). It is more frequent to find companies that present systems for claims and complaints. In most cases, there is a mention about the communication channels established with consumers and users.

7 Section 5. Business Conduct

As regards the last section "Business Conduct", currently the content that the LSME ESRS draft requires companies to disclose is rather limited compared to the other sections of the document.

Table 8 provides details of the information that was incorporated in the 2021 SLSMEs´ SR in this respect.

//// **TABLE 8** Information disclosed by SLSMEs on Section 5. Business conduct

Topic	DR	Metrics used	No. of companies	Companies
ESRS 2 GOV-1	The role of the administrative, supervisory and management bodies	Audit committee	8	Ecoener Enerside Insur Libertas 7 Mondo TV Realia Renta Corporación Solaria
		Appointments and remuneration committee	5	Ecoener Insur Realia Renta Corporación Solaria
		ESG committee	4	Econer Enerside Solaria Vytrus
		Compliance committee	4	Enerside Insur Libertas 7 Solaria
ESRS 2-IRO-1	Description of the processes to identify and assess material impacts, risks and opportunities	---	4	Ecoener Enerside Mondo TV Realia Solaria
G1-2	Management of relationship with suppliers	The undertaking has implemented a code conduct with suppliers	1	Enerside
		The undertaking discloses information on its purchasing practices/procedure and whether it considers also ESG criteria	5	Ecoener Enerside Realia Renta Corporación Solaria
G1-3	Prevention and detection of corruption or bribery	Information about procedures in place to prevent, detect, and address allegations or incidents of corruption or bribery	5	Ecoener Enerside Libertas 7 Realia Solaria
		Number of sanctions Number of fines for violation of anti-corruption and anti-bribery laws	3	Enerside Libertas 7 Solaria

//// TABLE 8 Information disclosed by SLSMEs on Section 5. Business conduct

Topic	DR	Metrics used	No. of companies	Companies
G1-5	Political influence and lobbying activities		0	

The information requirement ***GOV-1 "The role of the administrative, supervisory and management bodies"*** establishes the obligation to disclose aspects related to the role of administrative, supervisory and management commissions in the business conduct. Also, the company must disclose the experience of the members of these committees.

Currently, most of the SLSMEs that disclose sustainability information indicates in their reports the bodies that are responsible for the administration and management of business conduct. Specifically, 9 companies report on the bodies that improve ethical and business conduct. Commissions and committees linked to the Board of Directors such as Audit Committees predominate in 8 reports and Appointment and Remuneration Committees in 5 cases. CSR and ESG committees are also mentioned in 4 cases. However, with regard to the experience requirement, none of them refers to the experience of their bodies in such matters, but they do mention the functions of these bodies.

The section ***IRO-1 "Description of the processes to identify and assess material impacts, risks and opportunities"*** requires the disclosure of criteria used to assess material impacts, risks and opportunities, including location, activities, sector and operations. Currently, SLSMEs do not generally disclose information on impact and risk assessment processes. Only 4 companies report on some processes related to key business activities such as employee management, financial information disclosure, or collective complains (Ecoener, Enerside, Solaria and Realia). Finally, Mondo TV mentions risk identification systems and Enerside speaks about the implementation of "Integrated Management Systems".

Regarding the disclosure requirement ***G1-2 "Management of relationship with suppliers"*** , two companies mention how they take ethical and legal criteria into account in their supplier selection practices (Realia and Solaria). Ecoener and Insur mention the inclusion of clauses in contracts with suppliers to ensure compliance with laws and ethical conduct. Enerside establishes policies in relations with suppliers including contractual conditions that guarantee human rights and the company's code of conduct. They point out that they aim to extend the sustainability criteria they have to their suppliers (Realia and Renta Corporación). However, none of the analysed companies disclose information about how they assess the performance and practices of their suppliers.

Under the heading ***G1-3 "Prevention and detection of corruption or bribery"***, SLSMEs are required to disclose information about the assessment of the effectiveness of actions taken to deal with infractions of anti-corruption rules and procedures, and about the number of sentences and fines for violations of these rules.

Currently, 5 companies have policies or establish some measures and procedures that address the issue of corruption and bribery. There is no mention of mechanisms to assess the actions implemented to prevent these practices. Some actions to prevent corruption and bribery, and other legal and tax-related issues are discussed. Three companies report that they had not or only had a limited number of complaints related to these practices.

Finally, with regard to the information requirement ***G1-5 "Political influence and lobbying activities"***, only Enerside expressly states that it does not make contributions to these groups. At present, the analysed Spanish companies do not disclose this type of information, as there is no cultural tradition in Spain of making such contributions to political parties, unlike, for example, what happens in the USA. Some of the companies do mention that they make philanthropic donations to NGOs, foundations or similar entities.

8 Final Remarks

Once we have analysed the content of the SRs issued by the ten SLSMEs in the sample and we have compared it with the information that they must include in these reports when the LSME ESRS comes into force, it has become clear that the current state of sustainability disclosure by these companies can be described as incipient in most sections of the draft.

In general, we have identified a lack of reporting on some issues:

- Identification of plans, actions and strategies.
- Quantification of the financial impact of risks and opportunities.
- Description of the methodologies applied for the calculation of the different metrics.
- Interconnection with the information contained in the Financial Statements.

We also have to add all the disclosure requirements included in the LSME ESRS that we have not found in the reports, as detailed in the previous sections.

This implies that the effort that SLSMEs will have to make to comply with the LSME ESRS will be considerable. Firstly, they will have to allocate resources and time to conduct a double materiality analysis. Secondly, if the issues are material, they will have to make significant investments in their systems to obtain the information and prepare it to meet the disclosure requirements of the standard.

Perhaps the only aspects that may be less costly are, on the one hand, those related to the information to be disclosed about their own employees, since we understand that the current information systems of the companies already have the necessary data, and on the other hand, those related to the information about the administrative and supervisory bodies, since the CNMV already requires them to disclose these aspects.