

Shape the new European sustainability reporting standards for SMEs

Webinar for EMAS companies

9 April 2024



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AGENDA

No	Item	Time
1	Introduction on EFRAG work on SMEs	5'
2	Value chain considerations and sector approach in ESRS LSME and VSME	20'
3	VSME overview	30'
4	Wrap up and closing	5'



1. Introduction to ESRS LSME ED and VSME ED

TWO DIFFERENT STANDARDS SUPPORT SME'S ACCESS TO FINANCE

ESRS for listed SMEs - LSME

- Part of EFRAG mandate in CSRD', delegated act, effective 01/01/26 (two-year opt out)
- **Public-interest relevance:**
 - SMEs with bonds, shares and other securities traded in regulated market in the EU
 - small and non-complex institutions (SNCIs)
 - captive insurers/ reinsurers
- To set requirements proportionate and relevant to the scale and complexity of the activities and to the capacities and characteristics of LSMEs.
- Expected to support LSMEs in better access to finance and avoid discrimination against them on the part of financial market participants

Voluntary standard for non listed SMEs - VSME

- Outside the CSRD mandate: EC SME Relief Package of September 2023: to support SMEs in accessing sustainable finance.
- Non-listed micro- + SMEs
- Simple reporting tool to assist in responding to requests for sustainability information from business counterparts in an efficient and proportionate manner
- Facilitate SMEs transition to sustainable economy
- To standardise the current multiple ESG data requests by reducing the number of uncoordinated requests they receive.

TWO CONSULTATION PACKAGES AND TWO FIELD TESTS



2 field tests: 1 on LSME and 1 on VSME in parallel with the public consultation. The field tests complement the outcome of the consultation with additional fact-based evidence and focus on:

- (a) costs and challenges associated with each of the disclosures;
- (b) expected benefits of the disclosures;
- (c) The understandability of the guidance provided in the ED and its ability to support the implementation of the disclosure requirements (for VSME ED).



Deadline for completing field tests: 21 April 2024



2 public consultations: 1 on LSME and 1 on VSME to receive feedback of public on key aspects of the EDs:

- (a) The proposed architecture (for both LSME and VSME);
- (b) the implementation of the CSRD requirements (for ESRS LSME ED);
- (c) role of LSME in setting the value chain cap for information to be reported by large undertakings;
- (d) Proposed disclosures and simplifications achieved in LSME;
- (e) The understandability of the guidance provided in the ED and its ability to support the implementation of the disclosure requirements (for VSME ED).
- (f) Market acceptance of VSME

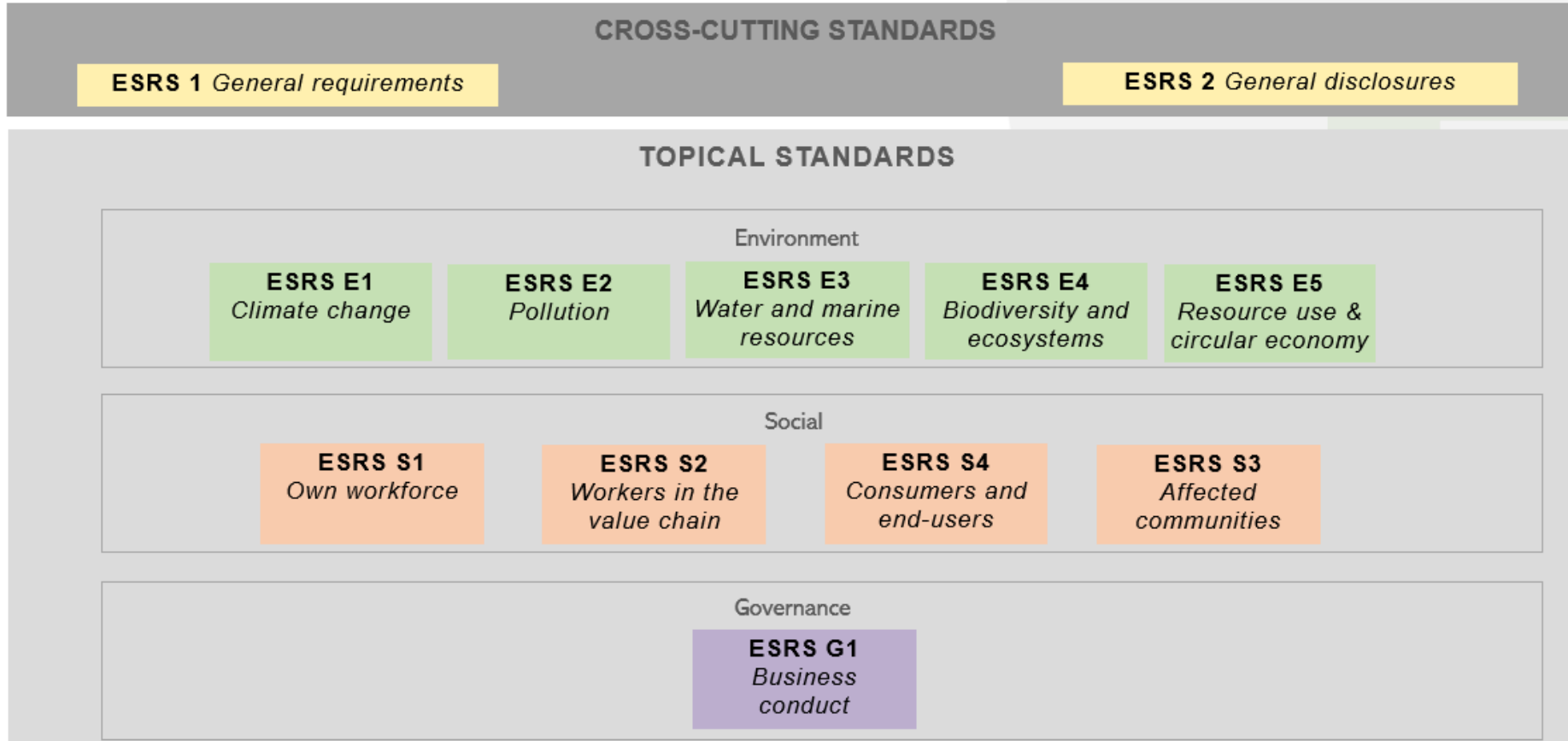


Deadline for completing public consultation: 21 May 2024.



2. Value chain considerations and sector approach in ESRS LSME and VSME

COMMISSION DELEGATED REGULATION (EU) 2023/2772 – ESRS for large undertakings



- **ESRS Set 1 Implement the content of the CSRD**
- **Role of LSME in setting the « value chain cap » for ESRS for large undertakings**

➔ To be complemented by sector specific standards + SME standards

VALUE CHAIN CAP: LSME, VSME AND TRICKLE-DOWN EFFECT

- SMEs receive data requests from large undertakings for business and reporting reasons, including the CSRD reporting obligations using ESRS.
- To limit the amount of these requests, according to CSRD, ESRS should not specify disclosures that would require large undertakings to obtain information from SMEs in their value chain that exceeds the information to be disclosed in accordance with LSME ESRS ED. EFRAG work identifies this legal requirement as '**value chain cap**'.
- Beyond the legal provisions of CSRD, VSME ED is also intended to play a key role in supporting SMEs, when they prepare the information needed by large undertakings for ESRS reporting, as well as for other obligations including for business purposes.

VALUE CHAIN CAP: APPROACH IN DRAFTING LSME

- EFRAG has scrutinised the datapoints in ESRS for large undertakings and has identified 10 disclosures (out of 84 DRs) that result in discloses about value chain aspects, when material.
SBM-1; **SBM-3**; **IRO-1***; **PAT***; **Climate Transition plan***; **GHG emissions***; **GHG removals***; **substances of concern and substances of very high concern****; **resource inflows**; **entity specific disclosures**.*
- Priority: include requirements to respond to users' needs. No datapoints added for the purpose of preserving the integrity of the reporting of large undertakings on their value chain
- Trickle-down effect due solely to ESRS reporting obligations of large undertakings (i.e. in isolation from business reasons) has been minimized in LSME ED, while allowing to maintain an appropriate coverage of the value chain information in the ESRS reporting obligations for large corporates
- Administrative burden required from SMEs in general to prepare such datapoints does not outweigh the informative and management benefits for them and for business partners and is commensurate with their resources.

*Stemming from SFDR / Taxonomy / Benchmark / EU Climate law

** Stemming from the REACH Regulation

VALUE CHAIN CAP: APPROACH IN DRAFTING VSME

- Non-listed SMEs receive data requests from large undertakings, including due to reporting obligations in the CSRD
- VSME ED includes simplified disclosures that generally correspond to the reasonable expectations of ESRS preparers (large undertakings)
- Who applies VSME will in general be able to meet the data requests defined for value chain in LSME, except for very specific cases.
- These cases correspond to disclosures which are included in LSME ED but are not included in the VSME ED, due to their excessive complexity for non-listed SMEs in general.
- They are principally of a sectorial nature (GHG Removals, substances of concern/high concern, resource inflows), mainly needed for management or specific arrangement purposes.

No sector-specific provisions in ESRS LSME ED according to CSRD

ESRS LSME



VSME



SECTOR AGNOSTIC

SECTOR CONSIDERATIONS



- Sustainability matters may be highly dependent on the specificities of the relevant sector(s)
- Disclosing sector-specific information would give a more complete picture of how the undertaking is addressing its sustainability IROs
- EFRAG is developing sector-specific standards for large undertakings



3. VSME overview

➤ Not legally binding – outside CSRD- but to fulfill market needs.

➤ **Proportionality** = simplified language + modularity + overall ESRS consistency

➤ Scope: Non-listed Micro and SMEs in EU

99.8% of total
EU companies

➤ Why a voluntary standard for SMEs?

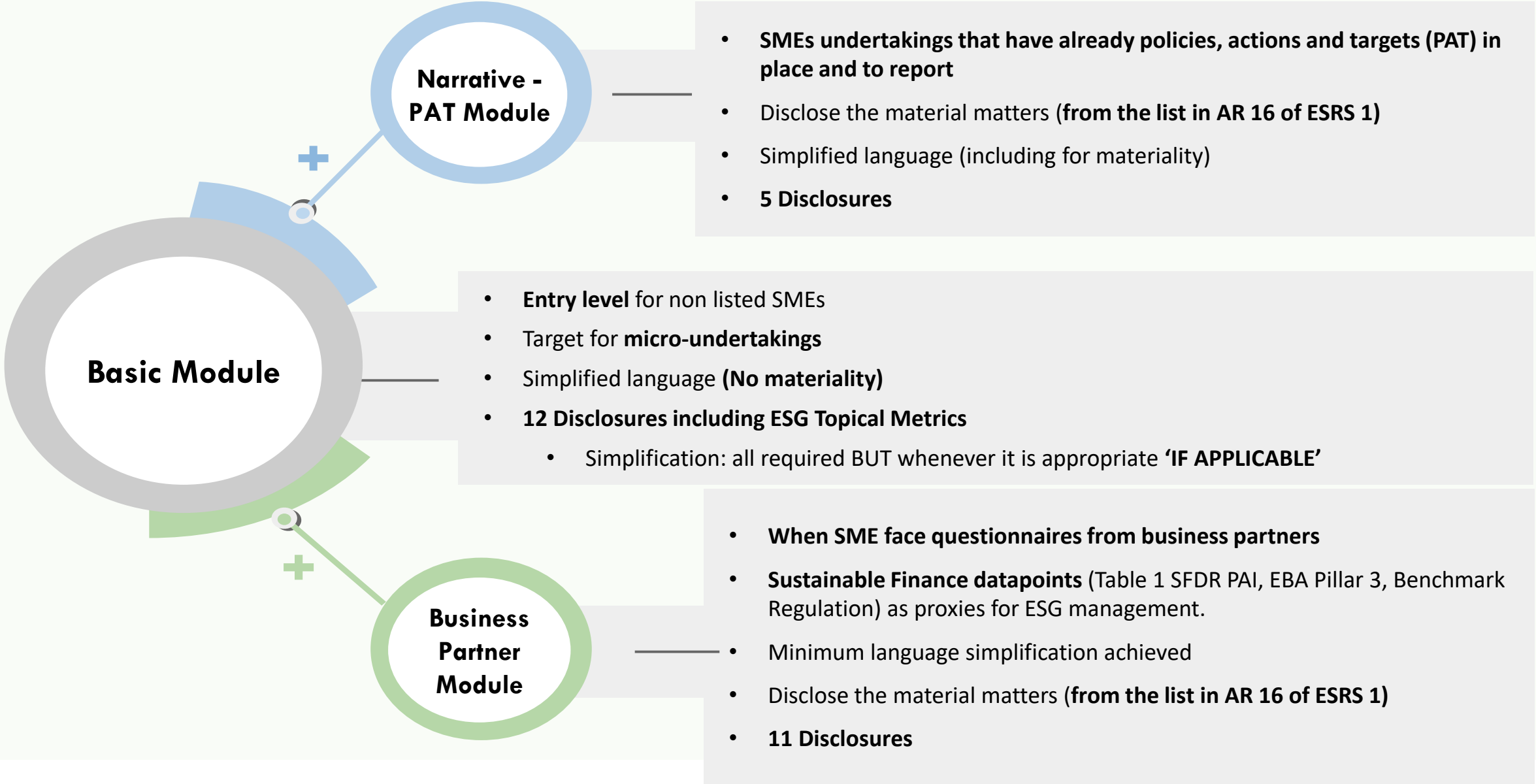
- i. [EC Q&A Delegated Acts ESRS in July 2023](#): “*EFRAG is developing simpler, voluntary standards for use by non-listed SMEs [...] to respond to requests for sustainability information in an efficient and proportionate manner, and so facilitate their participation in the transition to a sustainable economy.*”
- ii. [EC SME Relief Package of September 2023](#) refers to **VSME as a measure to support SMEs in accessing sustainable finance.**

➤ Commitment of market participants (larger corporates and banks) essential for the success of the standard

OBJECTIVES OF THE VOLUNTARY STANDARD

- To provide a simple reporting tool, that can credibly replace a substantial part of the questionnaires used by business partners (**lenders, investors and corporate clients – supply chain dimension**) in requesting ESG data from SMEs and that can support SMEs in monitoring their sustainability performance.
- While the ED has been built **mainly on the basis of questionnaires from business partners**, the resulting information is expected to also benefit SMEs by improving their management of sustainability issues and, in this way, contribute to a more sustainable and inclusive economy.

MODULAR APPROACH TO MAXIMISE PROPORTIONALITY



General approach: VSME is a standalone document to provide a simple reporting guidance for SMEs that are outside the scope of CSRD.

CSRD Scope: The CSRD however provides certain indications for non-listed small and medium companies (Art 29b4, Recital 21, Recital 22). With reference to Recital 21 above, EFRAG considered whether the non-listed SME should also apply LSME ESRS ED, resulting in a single standard for SMEs. The EFRAG SR TEG and EFRAG SRB considered that the level of simplification and proportionality of a voluntary standard suited for use by micro and small undertakings would be irreconcilable with the minimum disclosures needed by investors.

Building Block and methodology of SR TEG and SR Board:

- Ensure conceptual coherence with the ESRS Set 1 and ESRS LSME ED
- Appropriate proportionality
- Focus on the users' needs

Terminology:

- Simplified language in VSME, especially in the Basic Module, without impairing the coherence with LSME.
- Appropriate explanations on the disclosures of the Basic and Business Partners Module have been included in the Guidance sections for both modules.

Consolidated perspective: VSME ED recommends the undertaking to prepare its sustainability report on a consolidated basis, if it is a parent company of a group, in order to include the information of its subsidiaries.

Entity Specific information: VSME ED refers to inclusion of additional information, depending on the type of activities it carries out (sectors).

EFRAG TRANSPARENT AND INCLUSIVE DUE PROCESS

EFRAG SME Communities

- Group of experts participating in surveys and workshops with EFRAG Secretariat (closed meetings)

Outreach and workshops with SMEs associations and users of their information

- Questionnaire-based, to collect feedback on the content of the 3 modules head of consultation

Benchmarking

- German Sustainability Code, Nordic Sustainability Reporting Standards and the CDP Climate, disclosure for SMEs
- Business Partners questionnaires
- Cluster 8 EFRAG PTF ESRS

EFRAG SR TEG

- Group of experts advising the EFRAG SR Board, multistakeholder composition, 4 meetings per month in 2023, public meetings. EC observer.

EFRAG SRB

- Group of stakeholders' representatives, multistakeholder composition, 2 meetings per month in 2023, public meetings. EC observer.

VSME Exposure Draft for public consultation

- EFRAG Secretariat **analysed 12 real life examples of ESG questionnaires** which included:
 - 2 national central banks
 - 4 national federations
 - 1 national credit information provider
 - 1 national bank
 - 1 rating agency (used by more than 100,000 companies)
 - 3 mixed banks and supply chain (international initiatives) questionnaires.
- These questionnaires cover around 26,000 SMEs and are part of initiatives that comprise approximately 700 banks and 450 companies in the value chain.
- Please note that some of these questionnaires are international initiatives, thus have an international scope.
- See next slides for a more detailed overview of the VSME Modules.

VSME ED BASIC MODULE	Number of questionnaires in which it is asked	If applicable/Always to be reported on
Disclosure B1 – Basis for Preparation		Always to be reported on
Disclosure B2 – Practices for transitioning towards a more sustainable economy		If applicable
Environmental Metrics		
B3 – Energy and greenhouse gas emissions	12	Always to be reported on
B4 – Pollution of air, water and soil	7	If applicable
B5 – Biodiversity	4	If applicable
B6 – Water	9	Paragraph 30 (water withdrawal) always to be reported on Paragraph 31 (water consumption) if applicable
B7 – Resource use, circular economy, and waste management	9	Points (a) and (b) if applicable
Social Metrics		
B8 – Workforce – General characteristics	8	Point (c) if applicable
B9 – Workforce - Health and Safety	3	Always to be reported on
B10 – Workforce – Remuneration, collective bargaining, and training	7	Always to be reported on
B11 – Workers in the value chain, affected communities, consumers and end-users	-	If applicable
Governance Metrics		
B12 – Convictions and fines for corruption and bribery	4	If applicable

VSME ED NARRATIVE-PAT MODULE	Number of questionnaires in which it is asked
Disclosure N1 – Strategy: business model and sustainability related initiatives	10
Disclosure N2 – Material sustainability matters	Not applicable
Disclosure N3 – Management of material sustainability matters Paragraph 61: Actions taken in the reporting period to improve its energy efficiency and to reduce its greenhouse gas emissions	7
Paragraph 62: Policies, actions and targets in relation to (i) workers in the value chain; and/or (ii) consumers and end users; and/or (iii) affected communities	3
Paragraph 64: Actions taken to address breaches in procedures and standards of anticorruption and anti-bribery.	8
Disclosure N4 – Key stakeholders	7
Disclosure N5 – Governance: responsibilities in relation to sustainability matters	7

VSME ED Business Partners Module	Number of questionnaires in which it is asked
Disclosure BP1 – Revenues from certain sectors	5
Disclosure BP2 – Gender diversity ratio in governance body	6
Disclosure BP3 – GHG emissions reduction target	7
Disclosure BP4 – Transition plan for climate change mitigation	7
Disclosure BP5 – Physical Risks from climate change	9
Disclosure BP6 – Hazardous waste and/or radioactive waste ratio	4
Disclosure BP7 – Alignment with internationally recognized instruments	6
Disclosure BP8 – Processes to monitor compliance and mechanisms to address violations	5
Disclosure BP9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles (including the principles and rights set out in the 8 fundamental conventions of the ILO Declaration and the International Bill of Human Rights)	3
Disclosure BP10 – Work-life balance	1
Disclosure BP11 – Number of apprentices	3



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