

EFRAG Public Consultation – January 2024 - Questionnaire VSME Exposure Draft

1. DISCLAIMER

This questionnaire supports the development of the Exposure Draft for a Voluntary Standard for non-listed SMEs ('VSME ED'). The purpose of this consultation is to collect feedback from a variety of stakeholders on the content of its content.

The VSME ED is the result of EFRAG SRB and SR TEG and includes inputs from EFRAG Expert Working Group and the EFRAG VSME community as well as stakeholders outreach events. This work benefits from the research conducted by the SME working group "Cluster 8" of the EFRAG Project Task Force on European sustainability reporting standards.

The following background documents are included in the package to help respondents framing their responses:

Annex 1: VSME ED [link](#)

Annex 2: Basis for conclusions for VSME illustrating the reasoning behind the content of the ED [link](#)

Annex 3: Approach to Value Chain Cap in ESRS LSME ED and VSME ED [link](#)

Deadline for answer is 21 May 2024 (EoD)

2. SURVEY INTRODUCTION

Thank you for taking the time to complete this survey.

The purpose of this survey is to receive feedback from constituents on the VSME ED. The feedback will be collated by EFRAG Secretariat and analysed by EFRAG SR TEG and SRB to finalise the VSME draft for delivery to the European Commission ('EC').

Why VSME? EFRAG's work on a voluntary standard for non-listed micro, small and medium enterprises is outside the Corporate Sustainability Reporting Directive (CSRD).

As specified in the EC Q&A accompanying the adoption of the Delegated Acts ESRS in July 2023, EFRAG is developing simpler, a voluntary standard for use by non-listed SMEs to enable non-listed SMEs to respond to requests for sustainability information in an efficient and proportionate manner as well as to facilitate their participation in the transition to a sustainable economy. The EC SME Relief Package of September 2023 refers to the VSME ED as a measure to support SMEs in accessing sustainable finance and to reduce the reporting obligations by 25%.

The VSME ED will allow non-listed SMEs (including micro) to face growing requests for ESG data and to lower the entry barrier to reporting. Undertakings with no company statute (self-employed) are expected to use this VSME. The benefits of VSME will depend on market acceptance and recognition that the VSME ED is suitable to replace a substantial part of the various questionnaires (from lenders, corporates, investors) currently used to collect such information from SMEs.

Micro, small and medium undertakings are in number the vast majority of enterprises in Europe.

General approach to users' needs: When answering to the questions in this Survey and assessing the appropriateness of the proposed disclosures, respondents are invited to consider the perspective of the users' needs of this particular ED (users being primarily SMEs' business partners, i.e. lenders, other investors, corporates) and to take into account the capacities of the SMEs, especially as they are not in the scope of the CSRD. Such information is also expected to support the perspective of public interest.

In this questionnaire, if not differently specified, the terms "SMEs" and "undertaking(s)" refers to non-listed micro, small and medium undertakings in the scope of VSME ED.

If you have no opinion on a question you can skip the question.

3. INFORMATION ON SURVEY PARTICIPANT

First Name:

Paul

Last Name:

Gisby

Email

paul@accountancyeurope.eu

Organization:

Name of organization:

Accountancy Europe

Type of organization:

Preparers are identified as those which choose to prepare a sustainability report under the VSME ED.

Users are identified as those using the sustainability information produced by applying VSME ED (in particular those are investors, lenders, large undertakings as SME's value chain partners).

Other

Please specify whether you are:

Other (please specify)

“Other” respondents can choose to respond either as as Preparers (proxy) or as Users (proxy). In this case, in addition they can provide complementary comments to cover the other perspective, using the last open question in Part 2 of the questionnaire.

Please specify:

Industry Association - Accountant/Consulting services/Assurance provider

Main country of operations:

Belgium

Main sector of operations:

Financial Institutions

Depending on the group you have selected, you will be asked different questions.

4. Survey structure and instructions

This survey is structured as follows:

A) Part 1: VSME ED – General key questions (CRITICAL, please consider answering all questions) (If you only wish to complete Part 3, please page through the questionnaire to there)

B) Part 2: VSME ED – Detailed questions on principles and datapoints in the 3 modules (ADDITIONAL, please complement your answers in part 1 by answering part 2 as much as possible) (If you do not wish to complete this part, please page through to Part 3 on the Value chain cap or the submission page as relevant)

C) Part 3: Value chain cap (Separate section on the role of VSME and LSME in respect to the trickle-down effect)value chain cap as determined by the ESRS LSME) (Please note that here you are requested to choose whether you want to respond in brief on this topic or in a more detail. Please note that the questions on the value chain cap here are the same as in the LSME questionnaire in part A2 and if you respond to both questionnaires, you do not need to repeat your answers.)

You can choose to answer any part on its own or combination with the other parts.

Survey instructions

Some questions in the survey will appear depending on your previous answers or choices. You will now be able to save your responses before final submission . Please note that EFRAG only considers completed surveys - partial submissions cannot be technically processed. You will receive an email with your response on submission.

5. A) Part 1: General key questions

A) PART 1: General Key Questions (CRITICAL)

a. Objective, simplifications and modules

Please refer to the text of VSME ED in [Annex 1](#) and to the text of Basis for conclusions for VSME ED in [Annex 2](#).

1. The objective of this ED is 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) 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.

Do you agree with this standard setting objective?

Yes

Please explain your answer:

Accountancy Europe agrees with the objective to provide a simple reporting tool to help SMEs deal with their sustainable transition and as a means by which supply chain demands for sustainability information and data could be mitigated. We commend EFRAG for undertaking this project and for the rapidity with which they have developed this ED.

The eventual development of an iXBRL standard for the VSME, perhaps linked to voluntary reporting via the European Single Access Portal, would also make it possible for the SMEs simply to establish and forward one common file instead of replying to multiple questionnaires in a plethora of formats.

2. VSME ED has been structured in three separate modules:

The Basic Module is the entry level for SMEs and the target for micro-SME; it is required also in case of use of one of the two other modules.

The Narrative-Policies, Actions and Targets (PAT) Module is expected to be used by SMEs that have already in place some formalised policies, actions and targets.

The Business Partners (BP) Module is expected to be used when an SME faces data requests from its business counterparties.

The following alternatives for reporting uses are possible under the VSME ED:

- 1) The Basic Module alone;**
- 2) The Basic Module with the Narrative-PAT Module;**
- 3) The Basic Module with the Business Partners (BP) Module;**
- 4) All three Modules together.**

Do you agree that these alternatives are appropriate to deal with the diversified undertakings in scope (both number of employees and economic sectors) in the context of the objective as stated in Q1 of this questionnaire?

Yes

Please explain your answer:

We fully support EFRAG in proposing the modular framework contained in the VSME. The option to start with the basic module and then to build on it based on the priorities of, and the demands on, the entity helps reduce the initial sense of complexity when viewing the standard, which should help reduce the anxiety of businesses taking the first steps in sustainability reporting. It should also be stressed that it is perfectly acceptable should the SME choose to limit its sustainability reporting to the basic module.

In addition to the four alternatives listed above, there is also the provision in paragraph 19 suggesting that the Basic Module disclosures B3 to B12 could be augmented with metrics from the Narrative-PAT and Business Partners Modules to provide 'more comprehensive information' – what might be termed a 'Basic module +' approach.

Whilst this undoubtedly provides SMEs with the flexibility to adapt the VSME to their particular needs and resources, it could also confuse users of such sustainability reports as to which 'flavour' of VSME was being presented.

Consequently, we propose that the disclosure in paragraph 21 (pertaining to the modules used) also requires disclosure of which metrics are disclosed voluntarily or which metrics from the N-PAT and/or BP modules are being used if the modules are not applied in their entirety.

The eventual development of an iXBRL standard for the VSME, perhaps linked to voluntary reporting via the European Single Access Portal, would also facilitate users being able to more easily determine which modules (or parts thereof) have been applied by the entity or group.

3. The Basic Module is written in simplified language to make it easily understandable for micro and SME undertakings, while ensuring clarity in terms defined by the ESRS with 12 disclosures to be reported. There is no need for a materiality analysis. Certain disclosures are required only if the undertaking considers them "applicable".

Do you agree that the Basic Module is proportionate, understandable (in terms of language), and has a reasonably complete set of disclosures to be used as a starting point?

Yes

Please explain your answer:

Accountancy Europe believes that the Basic Module is proportionate for the size and complexity of the entities at which it is targeted and has a reasonably complete set of disclosures so that SMEs can address the main general sustainability issues with which they may be faced. The disclosures should also be achievable by a good proportion of micro-entities, which represent the vast majority by number of businesses in the EU.

In terms of language, we find the standard to be understandable with commonly accepted use of key terminology. However, if the intent is that SMEs, including micro-entities, should be able to apply the Standard themselves without necessarily having to engage professional advisors, it should be considered whether a version could be produced for SMEs to apply themselves. In this version, the language could be further simplified, and certain elements could be reflected in appendices rather than in the body of the Standard – for example, the details in paragraph 2.

As another example, the use of terms such as 'relevant, faithful, comparable, understandable and verifiable' in paragraph 10 may cause confusion in SMEs that have had no previous exposure to such terms in a standard setting environment. In any event, it would be beneficial to define these qualitative characteristics, most logically in Appendix A. The Standard should be supplemented by guidance aimed directly at SMEs, particularly those that wish to report on sustainability issues without using the services of an external consultant. This SME targeted guidance should support the principles and metrics in the Standard with also include more examples of how metrics could be calculated, the real-world situations where ESG issues could affect them and what policies could be applied to deal with those material issues. For SME-preparers, more targeted guidance on the application of materiality (particularly impact materiality) would be most useful as this in an area that causes problems for those businesses with more experience of ESG reporting and more resources.

If a simplified version of the Standard, or an iXBRL version, cannot be produced in a short period, publishing a template that can be used by SMEs and their advisors would be most helpful.

If answer is NO, please indicate the relevant disclosure.

4. The Narrative-Policies, Actions and Targets (PAT) Module is suggested in addition to disclosures in the Basic Module, to undertakings that have formalised and implemented PAT. Materiality analysis is required to determine and disclose the sustainability matters that which sustainability matters are relevant for the undertaking.

Do you agree with the content of and approach to the Narrative-PAT Module, which is reserved to undertakings that have Policies, Actions and Targets (PAT) in place?

Yes

Please explain your answer:

We agree with the content and approach of the Narrative-PAT module.

We accept that the flexibility offered by only reporting those PATs that the entity has in place reduces the burden on SMEs. However, as it is proposed that entities disclose a list of all sustainability matters considered material, the failure to mention those material matters for which policies are not in place may raise questions from users why the entity is not acting on certain material issues. Consequently, it could be useful to include a recommendation to SMEs to provide a brief 'roadmap' in their sustainability report detailing if and when they plan to address material matters for which there is no current disclosure.

This could be included in the disclosure N2- Material sustainability matters or in N3 - Management of material sustainability matters.

We note that there is no specific guidance for the N-PAT module. Consequently, unless EFRAG believes that there should be a different approach to including policies and targets between the LSME and VSME, we recommend that the very useful clarifications contained in AR 3 of the LSME's Appendix A: Application Requirements – Section 3 Policies, Actions and Targets should be added as guidance to the N-PAT module.

5. The Business Partners (BP) Module sets datapoints to be reported in addition to disclosures in the Basic Module, which are likely to be included in data requests from lenders, investors and corporate clients of the undertaking. Materiality analysis is required, in order to determine and disclose the sustainability matters that are relevant for the undertaking.

Do you agree with the content and approach to the Business Partners (BP) Module as a replacement and standardisation of information requests by business partners, being a proportionate but complete set of ESG disclosures?

No

Please explain your answer:

We fully support the concept of the BP module and see the necessity to standardise as far as possible the sustainability information requests that SMEs receive from providers of finance and their value chain. However, we have some concerns about the metrics included in the current BP module, both in terms of the topics of the metrics, and in terms of their detailed drafting. We will examine these further in the relevant section below. We are receiving feedback that sector-specific information requests from the value chain are significant issues. Consequently, it would be valuable if EFRAG were to build an element of sector specificity into the BP module. This would be more useful than some of the metrics already included – particularly if it is possible to get a level of agreement from the value chain as to which metrics are key for particular sectors, thereby reducing the possibility SMEs receiving divergent information requests from value chain partners.

6. QUESTIONS

A) PART 1: General Key Questions (CRITICAL)

b. Sector guidance

6. Sustainability matters may be highly dependent on the specificities of the relevant sector(s) that the reporting undertaking operates in. Please select your recommended course of action for standard setting and guidance purposes on this matter.

Please note that your answer will be complemented by question 13 on the additional dimension of reporting including sectors.

Please select one:

Undertakings applying VSME ED should apply on a voluntary basis sector specific guidelines and disclosures applicable to both listed and non-listed SMEs, to be issued by EFRAG as a non-authoritative annex to the future sector-ESRS.

Please provide your comments, if any:

Apart from the increased public scrutiny, entities eligible to use the LSME standard are often structurally and operationally similar to their 'non-public' VSME equivalents. Consequently, it is our opinion that there should be a high level of commonality in sector specific disclosures between listed and non-listed SMEs.

Consequently, it should be possible to produce sector-specific guidance applicable to both LSME and VSME 'entities' rather than separate guidance for each. Hence, we have chosen option 4 above.

In terms of SMEs and sector specific ESG metrics, we believe that priority should be given to developing simplified sector specific standards for those sectors identified as being at highest risk for sustainability issues.

In particular, it has been noted that assisting the agricultural sector is a priority in certain Member States. This sector is estimated to emit around 10% of the EU's GHG emissions, has a high proportion of SME operators in most Member States and which, whilst being essential to European food resilience, often has few resources to apply to 'non-core' activities. It is also a sector with many specificities that require specialist resources. It would be very helpful if EFRAG could expedite the development of an SME sector specific standards for agriculture and could also be instrumental in cataloguing and assessing available tools that are available to SMEs in the agriculture sector to deal with their reporting obligations.

7. B) Part 2: Detailed questions on principles and datapoints

B) PART 2: Detailed questions on principles and datapoints (ADDITIONAL, to complement part 1)

a. Principles for preparation

Please refer to the text of VSME ED in [Annex 1](#).

7. Do you agree with the proposed Principles for the preparation of the sustainability report in VSME ED?

Principles for the preparation of the sustainability report (Basic Module, Narrative-PAT Module, Business Partners Module)

	Please select:		Comment
	Agree	Disagree	
a) Complying with this Standard (paragraphs 9 and 10 in VSME ED)	X		The language in this section may need to be simplified if the intent is that SMEs use the VSME directly.
b) Preparation on a consolidated basis (paragraph 12 in VSME ED)	X		This should be an option for both VSME and LSME – giving all SMEs the ability to present consolidated sustainability reports when these would be more useful to their stakeholders
c) Timing and location of the Sustainability Report (paragraphs 13, 14 and 15 in VSME ED)	X		
d) Classified and sensitive information, and information on intellectual property, know-how or results of innovation (paragraph 16 in VSME ED)	X		We note that there is more flexibility in the (draft) VSME standard when compared to the (draft) LSME standard as to what could be construed to be classified or commercially sensitive information. We agree with this added flexibility as, for example, even disclosure of main value chain partners by SMEs could give competitors potentially damaging insight into the SME's business model. However, where information is omitted on these grounds, we believe that it is essential that the SME discloses this fact. Consequently, we suggest that the last sentence of paragraph 16 could be added as point (c) to the criteria to use the exemption, to emphasise the importance of being transparent about information omitted. We also consider that this same level of flexibility should be afforded to LSMEs, who are often equally as vulnerable in this respect as their non-listed counterparts. We also propose that the term 'commercial value' is supported by guidance to reduce the likelihood of different interpretation of the term and thereby improve consistency in application by SMEs.

If you disagree please explain your reasoning:

Please select a principle:

Explanation:

8. Additional question on Preparation on a consolidated basis. The VSME ED recommends the undertakings that are parent of small and medium sized groups to prepare consolidated reports for their sustainability statement, i.e. to include data of their subsidiary/ies in the report.

Do you agree with this approach?

Yes

Please explain your answer:

Accountancy Europe fully supports the preparation of sustainability reports on a consolidated basis, both to reduce the administrative burden on SME groups of preparing multiple singleton reports and also to provide more meaningful information to the group's stakeholders.

9. Since non listed SMEs are outside the scope of CSRD, the subsidiary exemption (see CSRD Art. 19a9) does not apply to them. One proposal that EFRAG could consider is to include such exemption in VSME ED, as a further incentive to apply consolidated sustainability reporting.

Would you consider the inclusion of a subsidiary exemption to VSME ED as pertinent and feasible?

No

Please explain your answer:

On the basis that SME's that wish to use the VSME are doing so on an entirely voluntary basis, we see no need for the VSME to specify a subsidiary exemption where no current legislative requirement exists for subsidiaries to prepare individual sustainability reports, let alone consolidated sustainability statements.

Where such an exemption would not only be useful but vital is for LSMEs, where the absence of such an exemption in the (draft) LSME standard causes major issues for its usefulness and ultimately, we believe, its adoption.

This is another reason why we believe that the VSME should be the cap for value chain reporting requests and not the (draft) LSME.

10. Additional information component including sectors (VSME ED par. 11, applicable to all the modules) Depending on the type of activities carried out, the inclusion of additional information about issues that are common to the undertaking's sector supports the provision of relevant, faithful, comparable, understandable and verifiable information. While acknowledging the difficulties that this requirement may raise for SMEs, the inclusion of this additional dimension was considered an important element of VSME ED to fulfil in particular-sector specific disclosures.

Do you agree with this approach?

No

Please explain your answer:

Whilst we agree that all entities should be encouraged to disclose any 'relevant, faithful, comparable, understandable, and verifiable' additional information that supports user's understanding of the sustainable transition of the entity, paragraph 11 specifically mentions the entity's sector.

As mentioned above, disclosing sectoral sustainability information is a particular concern for SMEs. A growing number of SMEs are receiving disparate information requests from larger value chain partners, often for sector specific information.

On the other hand, those SMEs that have yet to receive information requests from their value chain for sector specific information will struggle to identify the sector specific information that they should publish. Merely recommending that SMEs publish relevant sector specific information that they believe relevant will be difficult when they may have no idea of what information is relevant.

Consequently, as mentioned above, it would be very useful if EFRAG could build sector specific disclosures into the BP module as a matter of priority.

8. QUESTIONS

B) PART 2: Detailed questions on principles and datapoints (ADDITIONAL, to complement part 1)

b. Basic Module

11. The Basic Module is the entry level for non-listed SMEs and has a highly simplified language. Ideally the undertaking should be able to produce these disclosures with limited help of consultants. It comprises 12 disclosures which have been mapped with existing voluntary initiatives (i.e. Nordic Sustainability reporting standards for SMEs, German Sustainability Code, CDP guide for SMEs etc.). These disclosures have been identified as recurring in the questionnaires analysed by the EFRAG Secretariat (please refer to *Annex 2 Basis for conclusions for VSME ED* for more details).

With reference to the proposed disclosure requirements, please include your answer in table below:

	Do you have comments on the inclusion and content of this disclosure?
Disclosure B 1 – Basis for Preparation	
Disclosure B 2 – Practices for transitioning towards a more sustainable economy	
B 3 – Energy and greenhouse gas emissions	It may be difficult for SMEs to appreciate what a is 'controlled source'. We suggest that the guidance in Para 91 include a simple description of what constitutes a controlled source.
B 4 – Pollution of air, water and soil	
B 5 – Biodiversity	This metric requires a lot of background research, with terminology and concepts that will probably be unknown to a large proportion of the potential user base for the VSME standard. EFRAG should consider whether the language used in this metric could be simplified and better defined.
B 6 – Water	
B 7 – Resource use, circular economy, and waste management	
B 8 – Workforce – General characteristics	
B 9 – Workforce - Health and Safety	
B 10 – Workforce – Remuneration, collective bargaining, and training	As just under half of European SMEs typically have a small number of employees (i.e. 9 or fewer) there is a data protection concern for this metric that SMEs should be cognisant of. In certain circumstances, the low number of employees could effectively lead to the publication of personal information by a process of elimination. This concern could also impact disclosures under B-8 and B-9.
B 11 – Workers in the value chain, affected communities, consumers and end-users	
B 12 – Convictions and fines for corruption and bribery	

1 - This datapoint was not identified in any of the questionnaires analysed by EFRAG Secretariat but was inserted to keep consensus based on the recommendation by some EFRAG SRB members.

12. B3 to B7 require disclosure of environmental performance metrics. There are other schemes used by SMEs requiring reporting of similar metrics, such as the European Eco-Management and Audit Scheme (EMAS – Regulation (EC) No. 1221/2009).

Do you see any potential for better alignment with those other reporting schemes?

Yes

Please explain your answer:

We have received input that Ecovadis (a certification system) and B Impact Assessment (a free self-assessment system administered by B Lab) may be more suitable for use by SMEs.

13. The guidance provided for B9 on the number of fatalities as a result of work-related injuries and work-related ill health refers to incidents arising during travel and, outside of the undertaking's responsibility (e.g. regular commuting to and from work). These incidents are subject to the applicable national legislation that regulates their categorisation as to whether these are work-related or not.

Is the practice in your country to include such incidents as work-related fatalities?

No

Please explain your answer including references to the relevant legislation.

We are a European organisation and are unable to provide Member State-specific information.

14. B10 (a) requires undertakings to disclose the relevant ratio of the entry level wage to the minimum wage, when a significant proportion of employees are compensated based on wages subject to minimum wage rules. This datapoint deviates from the disclosure requirement on adequate wages established in ESRS S1-10 – Adequate wages (from paragraphs 67 to 71) as a simplification (i.e., easier to collect).

Do you consider that this requirement will provide relevant and comparable information?

Yes

Please explain your answer:

However, in some circumstances the metric could cause data protection issues in small entities where a low number of employees could effectively lead to the publication of personal data by the process of elimination. SMEs may not be aware of this so an explicit mention of the risk in the metric's text would be useful.

15. B11 was drafted to cover, in a simplified way, a description of the process to identify material impacts and a description of those for workers in the value chain, affected communities and consumers/end-users. This disclosure is an exception to the general approach in the Basic Module where materiality does not apply. As a compromise, it was included as a voluntary disclosure.

Do you agree with this approach?

Yes

Please explain your answer:

We agree that there may be a need for SMEs to consider (and disclose, if applicable) value chain risks and management of those risks. However, we think introducing the concept of materiality only for B-11 would complicate matters and could hamper adoption by SMEs – particularly for first time reporters.

We note that the term 'materiality' is not currently used in B 11 and there is no additional guidance for this metric. We do not consider it necessary to refer to materiality in B-11 and consider that the term 'severe negative impacts' will be adequately clear for the vast majority of potential preparers and users.

However, guidance on how to assess risks and impacts on affected parties and what sort of processes SMEs could adopt to mitigate those risks would be useful.

16. In order to help SMEs prepare the sustainability report, specific guidance has been developed for the Basic Module in paragraphs 87 to 167 of the VSME ED.

Do you think that it is useful for the preparation of the report? Do you think it is sufficient?

Yes

Please explain your answer or add suggestions:

Paragraph 134 providing guidance on metric B 7 in respect identifying manufacturing and/or packaging process, referring as it does only to Annex I of Regulation (EC) No 1893/2006 is not particularly helpful to SMEs and would be better replaced by the main points that SMEs should consider.

As mentioned in below, B 11 has no guidance and many SMEs would not easily be able to identify and implement processes to identifying potential severe negative impacts on workers in the value chain, affected communities, consumers and end-users. As mentioned previously, for SMEs that wish to implement the VSME without using external consultants, providing practical examples of the sort of processes that they could implement would be most valuable.

9. QUESTIONS

B) PART 2: Detailed questions on principles and datapoints (ADDITIONAL, to complement part 1)

c. Approach to materiality of matters and Principles for preparation (common to Narrative-PAT and Business Partners Modules)

17. Do you think that the language and approach to the Principles of Materiality to be applied to the Narrative-PAT Module and Business Partners (BP) Module are proportionate for the undertakings in scope? Please include your feedback in the table below:

	Please select:		Comment
	Agree	Disagree	
Impact materiality (paragraphs 46-50 in VSME ED)	X		We consider that it should be an explicit option to report on material positive impacts and not just opportunities. A paragraph could be added to this section to make this clear.
Financial materiality (paragraphs 51-55 in VSME ED)		X	Para 51 should be rephrased as it is a self-referencing definition: "a sustainability matter is material if it pertains to financial risks that could be reasonably expected to have material financial effects materially influencing the undertaking's financial position".
Stakeholders and their relevance to the materiality analysis process (paragraphs 56 and 57 in VSME ED)	X		

18. The VSME ED requires performing a materiality analysis in order to disclose which of the sustainability matters listed in Annex B of VSME ED (which is the same as AR 16 of ESRS 1 General requirements) are material to the undertaking. Therefore, users will understand for which material matters the undertaking does not have Policies Actions and Targets (PAT) in place. This approach (like for ESRS Set 1) is designed to have a reliable depiction of what the undertaking is doing to address sustainability matters, avoiding greenwashing. At the same time, this approach only requires reporting the PAT (Policies, Actions and Targets) that the undertaking has in place. No information is required when they have no PAT in place for a material matter (in addition to the list of material matters itself).

In the VSME ED, the Narrative-PAT and Business Partners Modules require assessing the materiality of the matters, as it considers the disclosure of only material matters as essential information for users. Do you agree with this approach?

Yes

Please explain your answer.

We agree with the approach of requiring an assessment of material matters for the Narrative-PAT and BP modules.

We would recommend that EFRAG reviews the various paragraphs pertaining to materiality across the modules to ensure consistency of explanation and terminology. In particular, we refer to paragraph 72: "The text below provides the list of disclosures from BP1 to BP 11 to be considered and reported upon if they are applicable or if they are considered relevant to the undertaking's business and organisation, following the materiality analysis performed by the undertaking in line with paragraphs from 42 to 57. When not reported upon, a disclosure shall be assumed to be 'not material' for the undertaking."

In this paragraph the terms 'relevant', 'material' and 'applicable' are all used synonymously. We consider this to be confusing, particularly as 'applicable' has previously been used in the basic module as an approach to avoid having to perform a materiality analysis. We would recommend that the terms 'relevant' and 'applicable' are dropped from this paragraph and only 'material' is used.

19. As a way to simplify the materiality approach, whenever possible the notion of “report only if applicable” has been introduced. This filters information to be reported by undertakings on the basis of relevance. No disclosure is expected for a specific datapoint, when the undertaking’s circumstances are different from those that would trigger disclosure of that specific datapoint, as described by the relevant provision in VSME ED. This is particularly important for the Basic Module, where no materiality analysis is foreseen and all the disclosures are to be reported, if applicable.

Disclosures in the Business Partners module are to be reported are to be reported if they are applicable and for BP 5,7, 8, 9, 10 (for which the "if applicable" approach would not work) if they are relevant to the undertaking's business and organisation.

Do you agree with this approach?

Yes

Please explain your answer:

We agree with the inclusion of the "report only if applicable" approach in the Basic Module as a useful simplification for micro-entities and first-time reporters who do not have the necessary experience or resources to consider financial and impact materiality.

However, even though this approach is a simplification, we suggest that EFRAG should review the current Basic Module disclosures to see if any further clarification of what is 'applicable' is required for certain metrics. For example, it may not be immediately apparent for many SMEs whether B 5 Biodiversity is applicable to them without more detailed guidance as how their impacts may make it applicable.

Although this (draft) Standard has an assumption that if a Basic Module metric is excluded then it is deemed 'not applicable', having a simple yes/no checklist built into the Basic Module would be useful for users of the VSME as a demonstration that the entity has formally considered whether the metric is applicable or not.

20. Financial opportunities have been included only on an optional basis in VSME ED since the CSRD focused on negative impact when addressing SMEs.

Do you agree?

Yes, reporting for financial opportunities should be optional

Please explain your answer:

We agree that reporting on financial opportunities should be optional. Extensive reporting on opportunities could open the risk of a form of greenwashing where negative impacts are buried under a deluge of financial opportunities.

However, in practice, we don't see this as likely to occur – not least because an SME reporting on financial opportunities faces the real prospect of disclosing sensitive trade information to direct competitors.

21. Do you agree with the proposed principles for the preparation of the sustainability report for the Narrative-PAT and Business Partners Module in VSME ED?

Principles for the preparation of the sustainability report (Narrative-PAT Module, Business Partners Module)

	Please select:		If you disagree please explain your reasoning:
	Agree	Disagree	
a) Time horizons (paragraph 40 in VSME ED)	X		
b) Coherence and linkages with disclosures in financial statements ((paragraph 41 in VSME ED)	X		

Please add your comments, if any:

10. QUESTIONS

B) PART 2: Detailed questions on principles and datapoints (ADDITIONAL, to complement part 1)

d. Narrative-Policies, Actions and Targets (PAT) Module

22. Do you agree with the content of the disclosures required by the Narrative-PAT Module of VSME ED? Please refer to Annex 2 Basis for conclusions for VSME ED for further detail. Please include your feedback in the table below:

	Do you have comments on this disclosure?
Disclosure N 1 – Strategy: business model and sustainability related initiatives	
Disclosure N 2 – Material sustainability matters	
Disclosure N 3 – Management of material sustainability matters	
Disclosure N 4 – Key stakeholders	
Disclosure N 5 – Governance: responsibilities in relation to sustainability matters	

23. N3 requires the disclosure of policies, actions and targets to manage material sustainability matters. There are other schemes used by SMEs requiring reporting of similar information, such as the European Eco-Management and Audit Scheme (EMAS – Regulation (EC) No. 1221/2009) regarding environmental policies, actions and targets.

Do you see any potential for better alignment with those other reporting schemes?

No

Please explain your answer:

We are not aware of any further such alignments.

11. QUESTIONS

B) PART 2: Detailed questions on principles and datapoints (ADDITIONAL, to complement part 1)

e. Business Partners (BP) Module

24. While acknowledging the complexities of this calculation specifically for SMEs, the inclusion of greenhouse gas (GHG) Scope 3 emissions as the entity-specific dimension was considered an important element of disclosure in some sectors. The Business Partners Module includes an entity specific consideration for GHG Scope 3 emissions to guide undertakings in certain sectors and for which Scope 3 GHG emissions are material in addition to the disclosures envisaged in B3 Energy and GHG emissions (Basic Module).

Do you agree with the inclusion of GHG Scope 3 emissions in the Business Partner Module in the paragraph “Entity specific consideration when reporting on GHG emissions under B3 (Basic Module)”?

No

Please explain your answer:

Accountancy Europe agrees that Scope 3 emissions are both intrinsically important for SMEs working towards their sustainable transition and as an issue of information requests from their value chain.

Due to resource constraints and a relative lack of power both up and down their value chain, many SMEs will find it very difficult to obtain accurate Scope 3 emissions figures- assuming that Scope 3 is a precise calculation, which it is not. This is one area where we believe that an EU GHG emissions calculator would be extremely useful, allowing SMEs to provide an approximation of their Scope 3 emissions based on an EU agreed methodology.

An alternative approach to SMEs being driven to report Scope 3 before they are prepared would be to promote the 'supplier cascade' approach (see more at the: The Supplier cascade - We Mean Business Coalition (website: www.wemeanbusinesscoalition.org/business/the-supplier-cascade/). Instead of disclosing Scope 3 emissions, SMEs would disclose the coverage of their suppliers that have science-based targets to reach net-zero. This would be a desk-based activity in most circumstances and could be achievable by many SMEs and could serve as a stepping-stone to disclosing Scope 3 emissions.

25. Do you agree with the content of disclosures required by the Business Partners (BP) Module of VSME ED? Please note that you can find the background for each Disclosure in the Annex 2 Basis for conclusions for VSME ED (BC130. to BC149). Please include your feedback in the table below:

	Comment:
Disclosure BP 1 – Revenues from certain sectors	We agree
Disclosure BP 2 – Gender diversity ratio in governance body	We do not agree. The current formula doesn't cater for circumstances where the governance body is completely comprised of females. To be gender neutral, the formula would be better defined as: "The number of the under-represented gender)/(number of all members" We also recommend that the metric states that any employee-elected members are specifically excluded from the calculation.
Disclosure BP 3 – GHG emissions reduction target	We agree
Disclosure BP 4 – Transition plan for climate change mitigation	We do not agree. It will be very difficult for most SMEs to assess how their transition plans are compatible with the Paris Agreement target . The disclosure should concentrate on more realistic disclosures, and the guidance contained in paragraph 179 would be a more realistic and meaningful starting point.
Disclosure BP 5 – Physical Risks from climate change	We agree
Disclosure BP 6 – Hazardous waste and/or radioactive waste ratio	We agree
Disclosure BP 7 – Alignment with internationally recognized instruments	We do not agree. See our response to Question 26.
Disclosure BP 8 – Processes to monitor compliance and mechanisms to address violations	We do not agree. See our response to Question 26.
Disclosure BP 9 – 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)	We do not agree. See our response to Question 26.
Disclosure BP 10 – Work-life balance	We disagreed with the value of this metric in ESRS S1 and feel that it is even more irrelevant to SMEs. Information on work-life balance is a real issue affecting many workers. However, this disclosure touches on only a small element of the issue. The concept of work-life balance often depends on the cultural backgrounds of the employees, their personal preferences or national legal requirements. We recommend that more consideration is given to this metric with the possibility of alternative KPIs perhaps covering such indicators as: - Disclosure of policies relating to flexible working and working from home - Disclosure of policies relating to contacting workers out of normal working hours - Disclosure of amounts of extra-statutory paid leave granted - Disclosure of limits on amount of time for which sick pay is paid - Disclosure of holiday entitlement not taken. - -Disclosure of Employee turnover rate' – divided by voluntary and involuntary leavers. This gives a proxy for how likely it is that a company dependant on skilled employees holds on to its employees and provides an indication of the workforce's work-life balance. This KPI could be calculated as follows: - Employee Turnover Ratio = ((Voluntary leavers + Involuntary leavers)/FTEs)*100
Disclosure BP 11 – Number of apprentices	We do not find this disclosure, without additional context, to be useful outside of specific sectors where apprenticeship is embedded in the business model.

26. With reference to disclosures BP 7, BP 8 and BP 9, the objective of these three disclosures is to assess the SME's commitment to respecting human rights. The ED has used the terms in the Sustainable Finance Disclosures Regulation (SFDR), applicable to the financial market participants (for example banks), for consistency purposes.

Are there alternative disclosures covering the same objective regarding the human rights of own workforce and that are more suitable than these disclosures?

No

Please explain your answer including updated/proposed text:

It is extremely unlikely that many SMEs will have the resources (or, indeed, inclination) to read, analyse and extract specific datapoints to report from long, complex and often high-level documents such as the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the ILO Declaration on Fundamental Principles and Rights at Work. Business partners should be cognisant of that fact.

Whilst we accept that these may be common disclosures required by business partners, we do not believe that the current solution addresses the specific issues that SMEs face in their sustainable transition – indeed, it strengthens the need for an SME standard that can be used 'straight from the box' if these are the sort of data that SMEs are routinely required to provide to larger business partners.

We call on EFRAG to replace these disclosures with simple, objective metrics that should be relatively easily achievable with the information that most SMEs will possess on their workforce etc.

For example, metrics based on the guidance paragraph 185 would provide more meaningful information than the current requirement in BP 7.

Other metrics in respect of BP 9 could be to disclose potential fines and penalties in respect of own workforce and / or lawsuits or cases with under consideration by the relevant authorities, per type:

"Open cases brought forward + new cases - closed cases - rejected cases = open cases carried forward"

27. Do you think that it would be beneficial to split the Business Partners (BP) Module into sub-modules depending on the nature of the user (for example “banks”, “investors”, “large corporates”)?

Please select:

No

Please explain your answer:

We believe that splitting the BP module into sub-modules would be premature. Also, as most of the information requests appear to have been sourced from providers of finance, the sub-modules would be very unbalanced.

In our opinion, it would be better to include the main sectoral disclosures in the BP module, replacing some of the existing metrics and enhancing the remaining, relevant, metrics. At this stage only, would it make sense to split the BP module into sector specific sub-modules.

28. Some of the questionnaires of banks and other business partners analysed by EFRAG Secretariat included also datapoints related to the EU-taxonomy regulation, despite non-listed SMEs being out of scope. EFRAG considered that preparing this information would be too complex for non-listed SMEs. We note that the EU Platform for Sustainable Finance may in the future make a proportionate tool for EU-taxonomy available. In particular, to meet the technical criteria for inclusion in the climate mitigation taxonomy, large undertakings have to consider the greenhouse gas (GHG) emissions of their various economic activities. These undertakings will need data from their suppliers. Small and medium-sized enterprises (SMEs) playing a crucial role in these undertakings' supply chains may be asked to provide the following information voluntarily to streamline the process for themselves and their clients:

SMEs whose activities fall under enabling activities of the Climate Delegated Act, e.g., categories 3.6 (Manufacture of renewable energy technologies) or 9.1 (Market research, development and innovation), should disclose the emission savings of their technology compared to the best-performing alternative.

Do you think that VSME ED should include this additional datapoint to cover EU-Taxonomy disclosures?

No

Please explain your answer:

We consider the inclusion of this additional datapoint to be premature and also irrelevant for many SMEs that would be looking to apply the VSME. In the comparatively rare occasion that SMEs issue green bonds, this would be covered by the reporting under the Taxonomy regulations.

A Green-CAPEX metric would be more relevant for investors looking to invest in SMEs investing in development of green assets etc. This provides stronger proof of the entity is on the transition path -with actual investment in green assets – which is more concrete evidence when compared to transition plans.

29. In order to help SMEs prepare their sustainability report, specific guidance has been developed for the Business Partners Module in paragraphs 169 to 193 of the ED.

Do you think that it is useful in the preparation of the sustainability report? Do you think it is sufficient?

No

Please explain your answer:

As mentioned in questions 30 and 32 above we have issues with the inclusion of BP Module metrics that require SMEs reading, analysing and extracting specific datapoints to report from long, complex and often high-level documents such as the UN Guiding Principles on Business and Human Rights, etc. In this respect, the guidance to the metrics that reference such documents and international targets, such as contained in the Paris Agreement, provide no more clarity or useful information than the text in the main body of the (draft) standard.

The title for the guidance on BP 2 (paragraphs 171 and 172) is not consistent with the text in the body of the main (draft) standard nor the topic itself.

We believe that paragraph 177 providing guidance for BP 3 GHG emissions reduction targets and recommending that SMEs consider the 'existing scientific evidence on GHG mitigation' is unrealistic and highlights the need for SME tools that can be updated on a regular basis to highlight whether their sustainable transition plans still accord with the latest scientific evidence, current expectations and so on.

In addition, we would also highlight that reference to modelling climate scenarios in paragraph 180 of the BP Module guidance is unrealistic for the majority of SMEs. This is a difficult area for larger businesses and including it in the VSME guidance may produce unrealistic expectations in the SMEs value chain.

30. Please provide any further comments not addressed in part 1 or 2 of the questionnaire here:

We believe that it is very important for the future of the planet, and for European competitiveness, that European SMEs are fully engaged in making their sustainable transitions. We believe that the VSME standard could play an important role in this – indeed, the draft standard is already a good starting point and has the very real potential to become the de facto international SME sustainability reporting standard.

However, to achieve this, a great deal of effort will be required at both European and Member State level to inform SMEs of the existence of the VSME Standard, its objectives and the benefits that should accrue to them should they adopt sustainability reporting, using the VSME Standard as the basis for this reporting.

To achieve the objective of reducing the administrative burden of supply chain sustainability reporting, the same awareness building and education as to what the VSME Standard represents will also be required for larger companies. If this is not achieved, they will continue to send out disparate information requests without considering the ability of SMEs in their supply chain to be able to deliver the information. It is very difficult for the sustainability departments of large companies in scope of Set 1 ESRS reporting to understand the constraints facing SMEs, and, given the amount of pressure these sustainability departments are currently facing, it is unrealistic to expect them to tailor their approach for individual smaller businesses in their value chain.

Consequently, it is vitally important to gain broad acceptance from large businesses that the BP module, and the VSME Standard itself, is a suitable analogue for their own information requests.

Awareness and acceptance of the VSME will also be enhanced by ensuring that it is translated into all Member State languages.

As mentioned previously, we also believe there is an urgent need for more European tools and financial support for SMEs starting their sustainable transition and sustainability reporting journey. There is a plethora of carbon calculators, reporting portals, ESG certification services etc that are available - and more are being added constantly. SMEs are overwhelmed by the choice and the lack of information as to whether the results generated are accurate and acceptable to their value chain.

Consequently, we call on the European Commission to work with Member States to look at developing an EU carbon calculator \ESG reporting tool, perhaps linked to the European Single Access Point. If this is not possible in the short term, then consideration should be given to certification of existing software solutions or at least the publication of accepted bases of calculation etc.

31. If you want to provide additional comments on aspects not covered in the questionnaire, please upload your file here.

12. C: Part 3: Value chain cap (Separate section on the value chain cap as determined by the ESRS LSME)

Non-listed SMEs receive data requests from large undertakings, including due to reporting obligations in the CSRD.

Jointly with the consultation on VSME ED to the consultation on this voluntary standard for non-listed SMEs, EFRAG is also consulting on the content of ESRS for listed SMEs (ESRS LSME ED). While ESRS cannot result in large undertakings having to request disclosures that are not included in ESRS LSME ED (which sets the value chain cap from a legal perspective), the VSME ED is 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. Therefore, VSME ED includes simplified disclosures that generally correspond to the reasonable expectations of ESRS Set 1 preparers (i.e. large undertakings that prepare their sustainability statement under ESRS). As a consequence, non-listed SMEs that apply VSME ED will in general be able to meet the data requests defined for value chain in ESRS LSME ED, except for very specific cases. These cases correspond to disclosures which are included in ESRS LSME ED (therefore SMEs may receive data requests from large undertakings relating to these disclosures, either due to their ESRS reporting obligations or for other obligations and business purposes), 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. More information is provided on these disclosures in [Annex 3](#).

Please note that the questions on the value chain cap here are the same as in the LSME questionnaire in part A2 and if you respond to both questionnaires, you do not need to repeat your answers.

32. Do you agree with the approach EFRAG has taken on the Value Chain Cap?

No

33. Are you willing to provide detailed feedback based on Annex 3?

No

34. Please explain your answer in brief.

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

As mentioned in our response to question 11, we understand that EFRAG's approach is constrained by the CSRD, which specifies the LSME Standard as the value chain cap.

However, due to the current complexity of the (draft) LSME, together with its focus being on single entities, we do not believe that the (draft) LSME is effective in protecting SMEs from data requests from larger businesses in SMEs' value chain that arise from the CSRD's reporting requirements.

Indeed, this point is acknowledged in the text above – particularly in respect of sector specific information requests. As mentioned previously, we believe that the LSME should be closer in length and complexity to the VSME. We also believe that sector-specific disclosures are a key cause of concern for SMEs and that a simplified set of sector-specific disclosures should, therefore, be built into the VSME Standard's BP Module.

There needs to be a specific legal requirement (e.g. an amendment to the CSRD) that prohibits larger value chain partners from forcing SMEs to disclose sustainability information over and above that contained in the VSME Standard. This would be predicated on the assumption that the BP module is recast to include the most relevant, commonly accepted, metrics for key sectors. This would not fully prevent larger entities using their commercial power to still insist on such information, but it would at least provide a legal backstop for SMEs.

Commercial pressure could then be dealt with by other measures – for example, the proposal in the Late Payment Regulation for anonymous reporting to national authorities of abusive behaviour from larger value chain partners.

13. Thank You!

Thank you for taking our survey. Your response is very important to us.