

ACCOUNTANCY EUROPE'S SUMMARY OF VIEWS ON THE DRAFT VSME AND LSME

Accountancy Europe actively promotes SMEs' sustainable transition. We commend EFRAG for developing the voluntary SME reporting standard (the VSME) to provide a simple reporting tool for SMEs and to satisfy supply chain demands for sustainability information.

The VSME has the real potential to become the de facto international SME sustainability reporting standard. We propose certain amendments that we believe will help it achieve that potential.

We present our key recommendations for improvement below. Check out our full responses to the EFRAG questionnaires on the draft VSME and LSME standards.

LEGISLATIVE CHANGES

The 'value chain cap' is the maximum amount of sustainability information that value chain partners can demand from SMEs for reporting purposes. This is an important provision to help protect SMEs from burdensome demands. The CSRD states that the LSME will be the value chain cap.

However, the current draft LSME has too many detailed requirements and consequently will not protect non-listed SMEs from excessive demands for sustainability information from their larger value chain partners or from providers of finance.

Consequently, on the basis that the LSME is unlikely to be substantially simplified, we recommend that the European Commission seeks to revise the CSRD to make the VSME the value chain cap.

We recognise that the legal value chain cap will not deter all larger companies from applying commercial pressure on SMEs. This is why we propose that the European Commission looks at ways to compel larger businesses to respect the cap and also why we support parallel developments, such as the OECD's Platform on Financing SMEs for Sustainability that seeks to develop a common information request template suitable for providers of green finance.

IMPROVEMENTS TO THE (DRAFT) VSME

We fully support the VSME's modular framework allowing SMEs to build on the Basic Module. This simplifies the process and reduces anxiety in first steps in sustainability reporting.

However, the draft VSME will be daunting for many SMEs starting sustainability reporting without having to engage external advisors. We recommend that EFRAG produce targeted guidance for SMEs with a reporting template, simplified language and extensive real-world examples.

THE MODULES

THE BASIC MODULE

We believe that the Basic Module is proportionate and fit for purpose. We agree that Basic Module metrics should be applied 'if applicable' rather than requiring a costly and difficult double materiality assessment.

We support the application of double materiality for the Narrative Policies and Targets ('the N-PAT') and Business Partners ('the BP') modules.

N-PAT MODULE

We support the proposed disclosures in the PAT module. Allowing SMEs the option of only reporting policies, action and targets when the business has the information available is a pragmatic solution to allow SMEs to build up resources and expertise over time.

THE BP MODULE

We fully support the concept of the BP module. However, we have concern with many of the current metrics, especially those that refer to other guidance, statements etc. We call on EFRAG to replace these disclosures with simple, objective metrics that are easily achievable with the information most SMEs will possess.

Providing sector specific sustainability information is one of the biggest challenges faced by SMEs from value chain information requests. We suggest that the BP module be recast to provide key sector specific metrics for those sectors facing the greatest sustainability challenges.

SCOPE 3 EMISSIONS DISCLOSURES

Whilst we agree that minimising Scope 3 emissions are important for SMEs' sustainable transition, many SMEs will find it very difficult to obtain accurate Scope 3 emissions figures due to resource constraints. We believe it would be appropriate to address the issue of Scope 3 emissions only once simple and free tools based on accepted standards become widely available.

Scope 3 emissions reporting could also then be made simpler, for example, by including embedded emissions data in e-invoicing systems. We call on the EC and Member States to ensure that legislation covering business reporting and invoicing do not inhibit the possibility of such helpful data exchanges.

PROMOTING THE VSME

A great deal of effort will be required to inform SMEs of the VSME's existence, its objectives and benefits. It will be also vitally important to gain broad acceptance from large businesses that the BP module, and the VSME Standard overall, are suitable analogues for their own information requests.

The VSME's adoption will be considerably dependent on the development of software solutions. A finalised VSME that meets the needs of preparers and users is an urgent priority to allow software producers to offer their solutions to SMEs.

ASSISTING SMES IN THEIR SUSTAINABLE TRANSITIONS

The European Commission should work with Member States to develop an EU carbon calculator/ESG reporting tool. SMEs need support to start their sustainability journey but are overwhelmed by the plethora of tools available and cannot be certain whether the results generated are acceptable to their value chain.

SMEs need an automated 'report once' solution where the sustainability reporting is linked to their national financial reporting process.

A FUNDAMENTAL ISSUE WITH THE LISTED SME SUSTAINABILITY STANDARD (THE 'LSME')

The EC should revise the CSRD to allow listed SMEs to prepare consolidated group sustainability reports using the LSME - with a reporting exemption for subsidiaries if a consolidated sustainability report is published. Listed SMEs that wish to do this are currently forced to report using full ESRS, a solution that fails to be a proportionate. This omission prevents the LSME from being a suitable standard for listed small and medium-sized groups.