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Presentation of Support Guide on disclosures C3 (GHG reduction targets and climate transition) and C7 (Severe negative human rights incidents) – Cover Note

Disclaimer to frame the session - VSME and Omnibus proposal

1. The European Commission in the Omnibus proposal released on 26 February 2025 proposes to use the VSME Standard as the basis of a future voluntary standard to be used for companies with 251 to 1000 employees. The VSME Standard has been developed for use by non-listed SMEs including micro-enterprises and has not been tested for use by other larger and more complex companies. The VSME support guides that are being developed in the current EFRAG work are to be understood as supporting the application of the VSME Standard by companies with less than 250 employees. For the purpose of the SR TEG session, please consider this scope of application (companies with less than 250 employees). The content of the VSME guides under discussion has been developed to be proportionate to these small and less resourced undertakings, taking into account of the (low) complexity of their operations. Should they be destined to a different group of companies, their content could be different and less simplified.

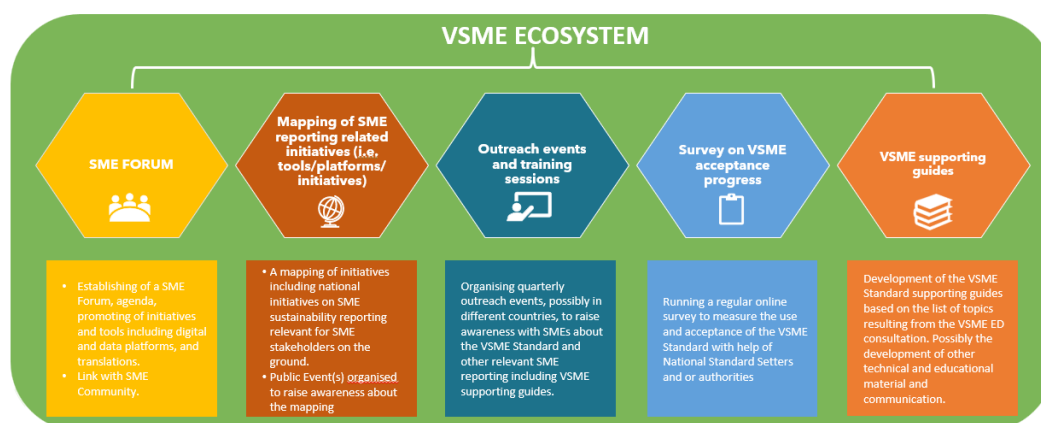
Objective

2. The objective of this session is to present to the EFRAG SR TEG the draft support guide that EFRAG Secretariat has drafted for the disclosures C3 (GHG reduction targets and climate transition) and disclosure C7 (Severe negative human rights incidents). These support guides fall within deliverable five of the VSME Ecosystem.
3. It is important to note that the European Commission will shortly adopt EFRAG's VSME as a Recommendation in its current form (with possible minor editorial changes) as indicated in the Explanatory Note accompanying the Omnibus proposal ("According to the proposal, the Commission would adopt the voluntary standard as a Delegated Act"). At the moment, no information is available on the proposed Delegated Act of a voluntary standard to be used by companies with 250 to 1000 employees, besides the European Commission's 26 February Omnibus proposal.

Background

4. Following EFRAG's technical advice on the VSME to the European Commission, EFRAG has been working on the roll-out of the VSME Ecosystem which includes complementary

initiatives aimed at promoting market acceptance of the VSME in order to fully realise the benefits of the standard. The VSME Ecosystem will span until November 2025.



5. As agreed in the SRB (18 January 2025) and SR TEG (21 January 2025) meetings, in terms of process, considering that this stream of activity is on top of the ordinary EFRAG work programme, the support guides are following a simplified decision making, due to their SME-specific nature. As such the EFRAG secretariat is first collecting feedback from the VSME Community and the newly established SME Forum, to gather feedback from a wide range of users, preparers and other relevant stakeholders on the initial drafts. EFRAG SR TEG and SRB are then invited to provide written input and to approve in written. Following the EFRAG SR TEG and EFRAG SRB approval, when relevant these documents would be open for targeted feedback (SME Forum and VSME Community members).
6. In terms of stakeholder feedback collection, EFRAG Secretariat sent a survey to design the support guides for disclosures C3 (Reduction targets and climate transition), and C7 (Severe negative human rights incidents) to the SME Forum members and VSME Community which closed on 11 April 2025.
7. For an overview of the survey analysis as well as the preliminary response of EFRAG Secretariat, refer to agenda paper 04-04.
8. In addition, as background information, the SME Forum (agenda paper 04-05) and the VSME Community (agenda paper 04-06) provide the summary and detailed analysis of the responses.

Overview of feedback from survey on C3 and C7 and how it has been addressed

9. This online survey was sent to the SME Forum and the VSME community to collect feedback on two parts:
 - (a) Support Guide on Disclosure C3 (GHG reduction targets and climate transition)
 - (b) Support Guide on Disclosure C7 (Severe negative human rights incidents)
10. Each part respectively investigated whether respondents agreed with the approach taken and gathered respondents' views on the specific content proposed for the two support guides.
11. Regarding the Support Guide on disclosure C3, the analysis of the responses from both the SME Forum and the VSME community showed an overall positive support for the aim and approach (step-by step) of the support guide (Q1 and Q7 average agreement across SME Forum and VSME Community respondents: 83%). Respondents also highlighted areas where further clarity and structure were needed. These areas mainly they focused on:

- (a) Overarching elements to be included in the structure of the support guide: respondents cited a need for a definition of high-impact sectors, a clearer linkage between support guides for disclosures C3 and C2 (practices, policies and future initiatives for transitioning towards a more sustainable economy), as well as a request to clarify better Scope 3 emissions within the scope of GHG reduction targets and transition plans.
 - (b) On GHG reduction targets: respondents called for more flexibility in target setting as well as detailed examples and extra guidance on the development and implementation of the targets. Some also expressed that the proposed linear GHG reduction approach proposed is not realistic for SMEs.
 - (c) Climate transition: respondents suggested providing actual examples of transition plans with guidance on the steps needed. Some mentioned that the costs related to drafting this transition plan may be significant for SMEs.
12. In response, the EFRAG Secretariat has structured the [draft] Support Guide C3 to allow for further guidance on the disclosure and development of GHG Reduction targets and climate transition plans within the limits of disclosure C3. These include:
- (a) A step-by-step guide to disclosing GHG reduction targets, which includes direction on setting timeframes and ambition levels with examples and explanatory charts/ diagrams. This is then followed by the main actions to implement the targets. The actions have been linked to support guide for C2, see agenda paper 04-02 for an overview of this linkage between C3 and C2. Additionally, scope 3 remains premature to add in the guidance as in the VSME Scope 3 was carefully introduced as a 'consideration' only for specific sectors. Due to the difficulties and complexity that were provided by stakeholders during the public consultation. For this reason, it will not be included in the guidance and will potentially be evaluated in the future when SMEs will gain knowledge and preparedness on sustainability topics. Further work on this may be undertaken by EFRAG in the future.
 - (b) A case study (that follows throughout the support guide) to clarify the disclosure expectations of climate transition plans is provided in parallel to a step-by-step guide, with additional case studies per each step, charts/ diagrams and term definitions as per the results of the survey.
13. Regarding the Support Guide on C7, the analysis of the survey responses from both the SME Forum and the VSME Community an overall positive support for the need of the support guide and for the structure/approach (Q1 and Q4 average agreement across SME Forum and VSME Community respondents: 81%) as suggested by EFRAG. Which consisted in providing hands-on guidance for SMEs disclosing if they are aware of any confirmed severe human rights incidents in their value chain. Respondents also highlighted areas where further clarity and structure were needed. Mainly they focused on:
- (a) Overall approach to report on Disclosure C7: respondents confirmed the aim of the support guide and asked for more educational content. Some respondents also suggested providing a more diverse array of examples, including ones in which SMEs have little influence/ leverage on (supply chain). The EFRAG Secretariat, in line with the VSME Ecosystem, recently developed deep dive education videos addressing all of the VSME disclosures.

14. In response, the EFRAG Secretariat has structured the [draft] Support Guide C7 to allow for further clarification on the disclosure of Severe Negative Human Rights Incidents within the VSME framework. These include:
- (a) In line with the VSME Ecosystem, the EFRAG Secretariat recently developed [deep dive education videos](#) addressing all of the VSME disclosures. These videos take into account the guidance as well. For this reason, the Secretariat has thus far decided to include additional educational material in video format (not written).
 - (b) The term “confirmed incident” has been explained and underlined also within the educational videos, with the aim to create more clarity on the matter, as requested by respondents during the survey. More information can be found directly in the [draft] support guide (agenda paper 04-03).

Question[s] for EFRAG SR TEG:

15. Do SR TEG members have any comments on the [draft] Support Guide on disclosures C3 and C7?

Next Steps

16. Following this meeting, the EFRAG Secretariat will send the support guides on disclosures C3 and C7 to SRB and SR TEG members for a 2 weeks written feedback period (deadline 29 May 2025).
17. Following this written feedback period, the draft guides will be adjusted and prepared for the targeted consultation, with the aim of finalising the support guide in autumn 2025.

Agenda Papers

18. In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 04-02 – Support Guide C3 – GHG Reduction Targets and climate transition
 - (b) Agenda paper 04-03 – Support Guide C7 – Severe negative human rights incidents
 - (c) Agenda paper 04-04 – Overview of SME Forum and VSME Community Feedback and EFRAG Secretariat’s response [for background information]
 - (d) Agenda paper 04-05 – Executive and Detailed report Survey on C3 and C7– SME Forum [for background information]
 - (e) Agenda paper 04-06 – Executive and Detailed report Survey on C3 and C7 – VSME Community [for background information]