

VSME Support Guide on Disclosure C3 – GHG reduction targets and climate transition plans

PRELIMINARY DRAFT SUBJECT TO SR TEG REVIEW

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THE CONTENT OF THIS SUPPORT GUIDE IS NOT COMPULSORY AND SERVES TO GUIDE THOSE SMES THAT HAVE DECIDED TO ADOPT AND DISCLOSE GHG EMISSIONS REDUCTION TARGETS AND CLIMATE TRANSITION PLANS

Background on the VSME Ecosystem Support Guides

1. EFRAG aims to produce support material to facilitate the adoption and reporting process for the VSME, within the context of the VSME ecosystem. Following the consultation on the VSME, the following disclosures in the comprehensive module of the VSME have been identified as Support Guide priority areas: **C2: Description of practices, policies and, future initiatives for transitioning towards a more sustainable economy; C3: GHG reduction targets and climate transition; and C7: Severe negative human rights incidents.**

Introduction and aim of the support guide on Disclosure C3 – GHG reduction targets and climate transition plans

2. This support guide presents a step-by-step guidance of how to structure and report GHG reduction targets and climate transition plans.
3. This Support Guide is based on the text of disclosure C3 – extract below:

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C3 – GHG reduction targets and climate transition

54. If the undertaking has established GHG emission reduction **targets**, it shall disclose its targets in absolute values for Scope 1 and Scope 2 emissions. In line with paragraphs 50 to 53 above and if it has set Scope 3 reduction targets, the undertaking shall also provide targets for significant Scope 3 emissions. In particular, it shall provide:
- (a) the target year and target year value;
 - (b) the base year and base year value;
 - (c) the units used for **targets**;
 - (d) the share of Scope 1, Scope 2 and, if disclosed, Scope 3 that the target concerns; and
 - (e) a list of main actions it seeks to implement to achieve its **targets**.
55. If the undertaking that operates in high climate impact sectors⁶ has adopted a transition plan for climate change mitigation, it may provide information about it, including an explanation of how it is contributing to reduce GHG emissions.
56. In case the undertaking operates in high-climate impact sectors and does not have a transition plan for climate change mitigation in place, it shall indicate whether and, if so, when it will adopt such a transition plan.

Introduction to GHG reduction targets and transition plans.

4. Adopting **GHG emission reduction targets** is an important response to the need to transition to a sustainable economy, as they allow companies to manage the change in a systematic, controlled and organised way. Adopting a GHG emission reduction target is an important response to the need to transition to a sustainable economy, as they allow companies to manage the change in a systematic, controlled and organised way.
5. For companies active in **high impact sectors**, where investments to decarbonise are likely to be higher, or where some activities are difficult to decarbonise, achieving targets might benefit from the implementation of a comprehensive **transition planning** process that supports change management and internal decision-making.

Structure of the support guide on Disclosure C3 (GHG reduction targets and climate transition)

6. This Support Guide is divided in two sections:
 - **Section 1:** this section consists of guidance for small and medium SMEs **setting GHG emissions targets** (including relevant actions to achieve them).
7. - **Section 2:** this section consists of guidance for small and medium SMEs operating in high climate impact sectors that have decided to adopt a climate transition plan (see section 2 for high climate impact sector classification). **Section 2** builds upon and complements on **Section 1 (setting GHG emissions targets)**. **Section 2 guidance is therefore to be read conjunctively with Section 1.**

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1. GHG reduction targets

"A GHG reduction target is a commitment to reduce the GHG emissions in a future year compared to the emissions measured during a chosen base year"

The standard does not require companies to set targets. However, it is good practice for companies to set Scope 1, 2, and 3 targets for 2030. If companies do set targets, the standard requires them to be disclosed.

8. For greater transparency and comparability of targets, the guidance of the VSME Standard introduces standardised terms (Disclosure C3-guidance, §220-221):

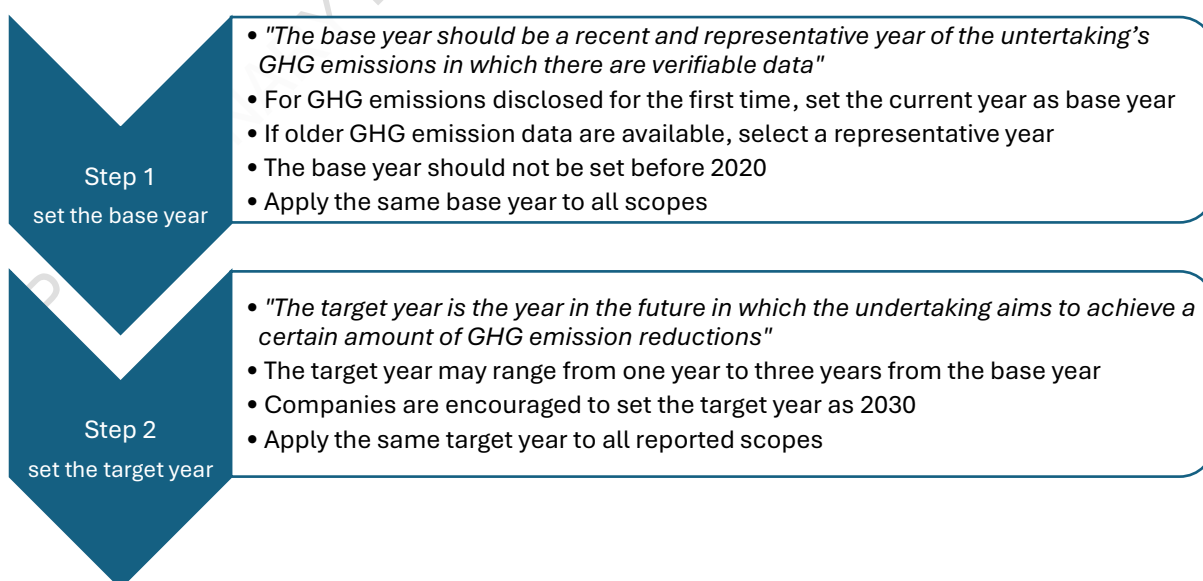
Base year	Reference year against which GHG emission reductions are measured
Base year value	Total recorded GHG emissions for the base year (tCO ₂ eq)
Target year	A future year in which the emissions reduction is to be achieved
Target year value	Maximum amount of GHG emissions to be released in the target year (tCO ₂ eq)

9. All amounts of GHG emissions should be expressed in tons of CO₂ equivalent (tCO₂eq) as required by B3 (Disclosure B3, §30).

1.1. Step-by-step guide to disclosing GHG reduction targets

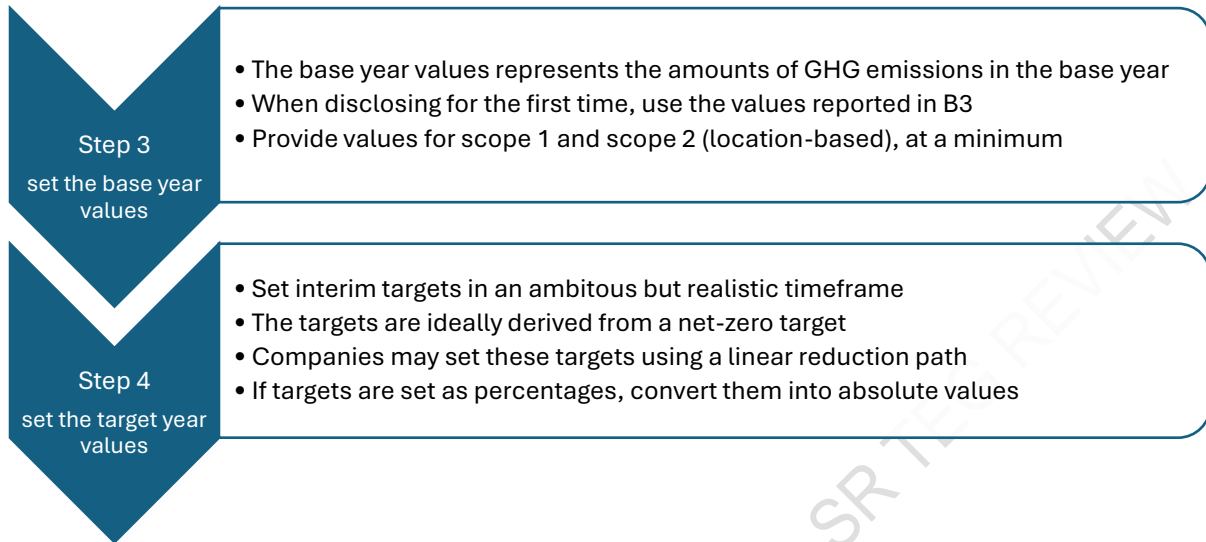
10. This step-by-step guide aligns with the VSME disclosure requirements and EFRAG's VSME template. This section provides a simple guidance on how to set targets, with special consideration of companies setting targets for the first time, for which examples of good practices are provided.

⇒ **Setting the timeframes**



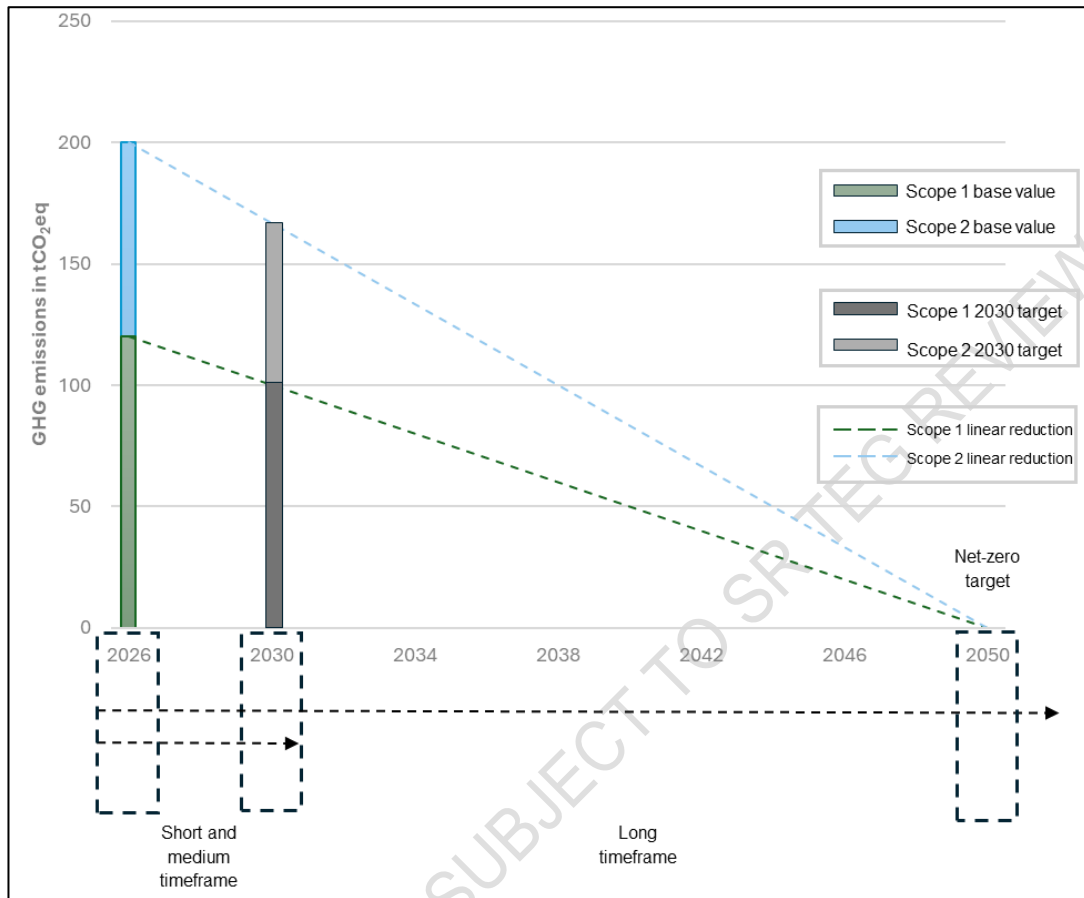
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⇒ Setting the ambition level



11. The graphic below depicts how SMEs can set a target to achieve net-zero emissions using a linear emission reduction path. In this approach, the undertaking first sets the year when it will achieve net-zero emissions (“target year”). To align with the international climate agenda and the EU’s net-zero commitment, this date should be no later than 2050. Once the net-zero target year is set, the undertaking can define a linear reduction pathway for Scope 1 and 2 emissions and derive interim targets.

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12. This simplified approach does not consider that different business activities likely decarbonize at different rates through 2050. A non-linear approach may provide a better representation of decarbonisation efforts and targets. For instance, for service companies, electricity use is often easier to decarbonise by choosing a green electricity provider or installing solar PV, which could justify a more ambitious target for Scope 2 emissions. In contrast, setting a target for Scope 3 emission reductions can be particularly challenging, as it depends on close collaboration with, and leverage over, suppliers, customers, and other value chain partners.

Companies that set targets based on the Scope 2 location-based method can reduce their Scope 2 emissions predominantly through energy efficiency measures or by consuming their own self-generated renewable energy. In contrast, by also applying the market-based method, companies gain an additional opportunity to reduce Scope 2 emissions by purchasing green energy.

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⇒ Target setting example

13. An SME disclosing for the first time, sets the base year at the (current) reporting year (“2026”), and decides to set the target year in 2030.
14. The SME decides to procure green energy by 2030, fully decarbonising its scope 2 emissions.
15. It also decides to reduce scope 1 emissions by electrifying part of the undertaking’s fleet, aiming for a reduction of about 35% of its scope 1 emissions.
16. Total GHG reduction target indicates that the SME will decrease emissions with 110t CO₂eq by 2030, just over 50% of its total emissions.

Table 1 - Example of target setting for an SME

Target setting example	Baseline	Current report	Target (2030 encouraged, 2050 if feasible)	% change
Year	2026	2026	2030	
Scope 1 (tCO ₂ eq)	185	185	120	-35%
Scope 2 location-based (tCO ₂ eq)	45	45	45	0%
Scope 2 market-based (tCO ₂ eq)	45	45	0	-100%
Total (tCO ₂ eq) (Scope 1&2 location-based)	230	230	165	-28%
Total (tCO ₂ eq) (Scope 1&2 market-based)	230	230	120	-52%

1.2. Main actions to implement the targets

17. While disclosing information on the main GHG reduction actions to achieve the targets, companies may refer to **disclosure C2** to align with the practices, policies, or future initiatives contributing to climate change mitigation already listed in C2. In Appendix A (non-exhaustive) the list of illustrative examples for climate mitigation actions from the guidance on disclosure C2 can be consulted.
18. It is expected that these actions are subsequently categorised as contributing to Scope 1 and Scope 2 reduction targets as in the example illustrated in Box 1 below.

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Box 1 Example of main action to implement the SME's GHG reduction targets

Scope 1: Low-carbon transport

Our actions include retiring depreciated diesel vans and leasing new electric vans (e-vans) to replace them. Additionally, cargo bikes will be leased in alignment with the SME's growth strategy to further reduce greenhouse gas emissions.

Scope 1: Energy efficiency measures

We plan to upgrade machines to A-label energy-efficient models in line with the depreciation rate, ensuring a gradual transition to lower energy consumption.

Scope 2: Renewable energy – renewable electricity sourcing

To reduce reliance on fossil fuels, 50% of the SME's electricity will be sourced from renewable electricity providers.

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2. Transition plan for climate change mitigation

IMPORTANT: This section applies specifically to SMEs operating in high climate impact sectors (see table 1, page 1 of this guide). Other companies like those operating in the services sector are not expected to draft or disclose transition plans. Those wishing to do so also may follow the guidelines below.

19. A transition plan for climate mitigation is the part of an SME's strategy that lays out its GHG reduction targets, supported by a set of present and future actions, to ensure compatibility with the transition to a lower-carbon economy and limiting global warming to 1.5°C.
20. Transition planning is not a one-time effort but an ongoing process. The plan can be expected to evolve as market conditions, policies and risks change.
21. Table 1 provides an overview of the high climate impact sectors as defined by the VSME standard.

Table 1 High climate impact sectors (VSME standard, §55, NACE v2.1 classification)

Class	Description
A	Agriculture, Forestry, and Fishing
B	Mining and Quarrying
C	Manufacturing
D	Electricity, Gas, Steam, and Air Conditioning Supply
E	Water Supply; Sewerage, Waste Management, and Remediation Activities
F	Construction
G	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles
H	Transportation and Storage
M	Real Estate Activities

2.1. Disclosure of climate transition plans

22. For an SME with a transition plan, the VSME standard does not expect that the full plan is disclosed. A summarized understanding of its GHG reduction efforts

Case study – setting the scene

To clarify the disclosure expectations, a case study of SME A, active in a high climate impact sector, is provided throughout the transition plan guidance.

SME A is active in a climate-intensive sector and has set emission reduction targets, aiming to lower total GHG emissions from 5000 tons in 2025 (B3) to 3850 tons by 2030 (C3, targets), representing a 23% reduction. The SME has also identified a list of actions for GHG emission reductions as requested in C3, main actions to implement the targets (2.2 of this Support Guide).

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is sufficient as long as it allows users of the VSME report to assess the ambition and robustness of the transition plan.

2.2. Step-by-step guide to disclosing a climate transition plan

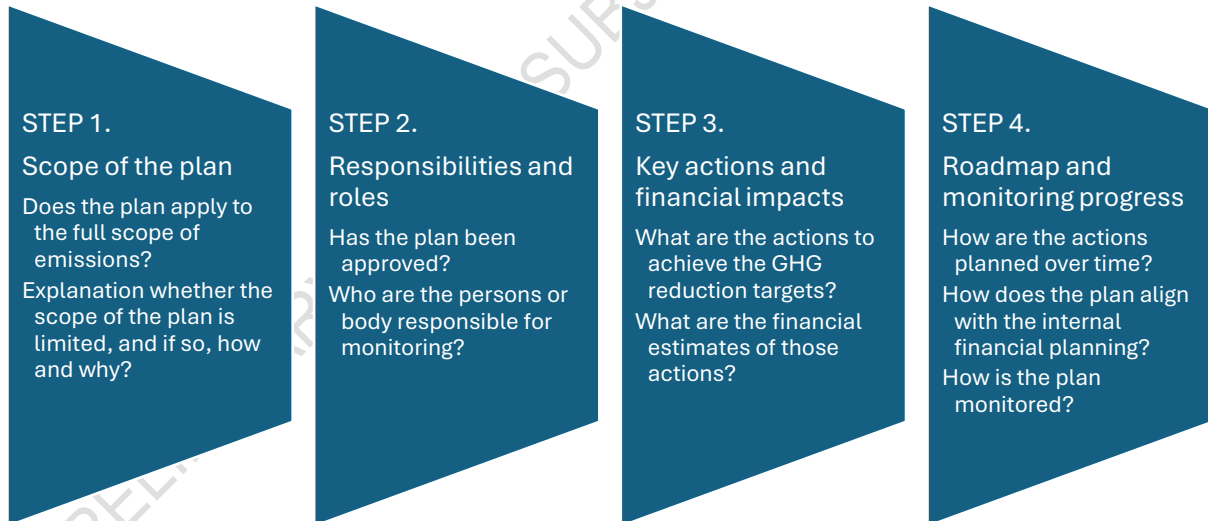
23. A credible transition plan for climate mitigation is a list of actions to be implemented over a time horizon which takes financial planning into account.
24. This transition plan will have to be updated on a regular basis as not all planned actions might be implemented, in particular those that relied on uncertain future developments.
25. The combination of disclosures illustrated hereunder ensures that a transition plan is disclosed in a credible way:

In the context of transition planning it is useful to stress that **actions refer to:**

1. **actions and plans** which ensure that the undertaking's targets are met; and
2. **decision processes** to assign financial, human or technological resources

(STEP 0.) Targets and long-term ambition of the plan

What are the current emissions, and which targets were set? (see: B3 & C3)
Do these targets include a longer-term objective?



⇒ **Step 1. Scope of the plan**

26. A transition plan for climate change mitigation developed by an SME may cover all of its emissions (disclosure B3) and targets (disclosure C3), or only a part thereof. After measuring its emissions, an SME can decide for strategic reasons

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to limit the scope of the plan to – for example – specific high-emitting activities or to a specific time horizon, as shown in the case study hereunder.

27. It is expected that the transition plan disclosure clearly lays out the boundaries of the transition plan, explaining what is not included, both in scope as in time, and provides an explanation of why these boundaries were considered and how these limitations do not affect the SME's ability to achieve its stated targets.

Case study – scope of the transition plan

SME A discloses that by continuing the current GHG emission reduction target, the SME's emissions will decline by more than 90% before 2050. It clarifies that the SME does not set a long-term target however, as it first wishes to build more experience with reducing GHG emissions. The SME also discloses that the plan focuses mainly on the electrification of its production process, as the current process causes the bulk of the known GHG emissions (80%) via its gas-fired dryers and furnaces and represents the largest financial challenge. SME A further states

⇒ **Step 2. Responsibilities and roles**

28. For a successful transition plan for climate mitigation, leadership commitment is crucial. Owners and key decision-makers set the ambition level of the plan. Responsibility for the plan usually lies with the most senior level of the undertaking accountable for implementing the plan. Roles to support the implementation of specific actions can be assigned to experts, project leads or management.

Case study – governance of the plan: who does what?

SME A discloses that the plan has been approved by the management of the undertaking. The managing director takes responsibility for setting and monitoring the SME's climate transition priorities, the operations manager will ensure effective implementation. The SME has asked its accounting service provider for support with the annual financial risk assessment of the plan and the eventual review of the plan's priorities.

⇒ **Step 3. Disclose key actions and financial impacts**

29. In this step, companies should discuss the GHG reduction potential and the financial impacts of the key actions they identified for GHG reductions (see 2.2 of this guide).

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30. In the case that an SME has identified a long list of actions, it may aggregate these actions into decarbonisation levers.

WHAT IS A DECARBONISATION LEVER?

Decarbonisation levers are more high-level, strategic types of action like “energy efficiency”, “electrification”, “use of renewable energy”, “redesign of products” that aggregate individual climate change mitigation actions and that help the undertaking communicate key strategic decarbonization options.

31. A credible transition plan has to consider the financial planning cycle of SMEs. If there are planned actions which are expected to take place after the horizon of the financial planning, the undertaking may provide approximations of GHG reductions and the financial resources necessary to implement in the future.

CAPEX/OPEX CONSIDERATIONS

CapEx represents upfront investments, such as purchasing energy-efficient equipment or installing renewable energy infrastructure, which may require significant funding but can lead to long-term cost reductions and improved efficiency. OpEx, on the other hand, includes ongoing costs such as maintenance, energy procurement, and operational adjustments, which companies must manage to ensure financially viable implementation of their climate initiatives.

32. Note that GHG removals (e.g. carbon credits from compensation programs like reforestation) and avoided emissions (e.g. GHG emissions avoided because of selling insulation products) cannot be included in the list of actions to reduce

Case study – disclosing key actions and financial impacts

To achieve its GHG reduction targets, SME A has identified that the electrification of its production processes would contribute to the strongest GHG emission reductions. Two decarbonization levers were identified: “electrification” and “renewable energy generation”.

Investments in electrification by 2030 are estimated at 1,5M€ (Capex) for a reduction of 26% of total GHG emissions (-1300t CO₂eq), to be spread over time and sites. The electrification will increase grid-based emissions from power consumption. Investing in renewable energy generation was identified as a priority considering market price evolutions, liquidity, and energy security concerns with an expected 1M€ investment cost (Capex) for a 1MW solar PV farm. The approach allows for an initial decrease of overall costs (OPEX) which provides SME A with some time to build liquidity to attract additional future investments.

A key uncertainty in the financial assessment is the expected return on the 1MW solar PV farm which depends on the realized value of grid services.

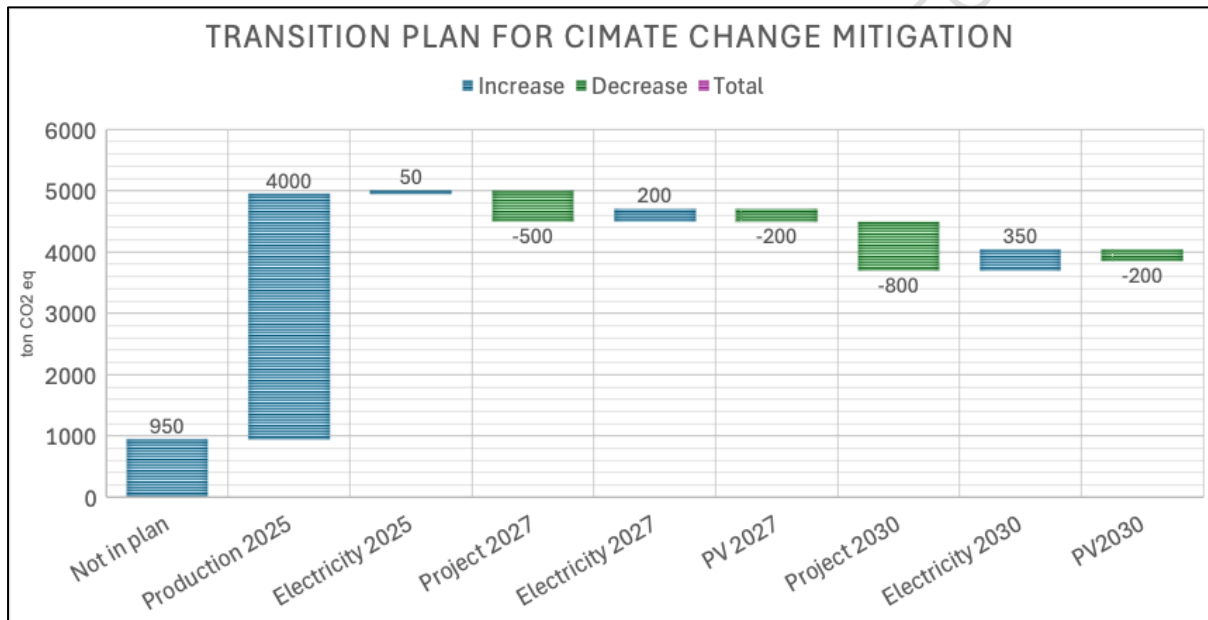
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GHG emissions and achieve targets. For further elaboration please consult §218-219 in the standard.

Decarbonisation levers	2025 (tCO ₂ e)	2030 (tCO ₂ e)	Investment (Capex, k€) or explain	Cost (Opex, k€/y)
Electrification of production plant	4000	2700	1500k€ total capex for two projects	(250k€/y) fuel savings
Electricity generation	-	-400	1000k€ for 1MWp solar PV farm	(125k€/y) cost savings

⇒ Step 4. Disclosing the roadmap and monitoring progress

33. SMEs may present their GHG emission reduction targets and decarbonisation levers in a table or graphically showing developments over time.



Case study – disclosing the transition plan and monitoring progress

SME A has a financial planning cycle of 2 years. It decides to set interim targets for the development of the transition plan for 2027, in line with the undertaking's financial approach. A relatively modest electrification project is selected as a first investment to prove the economic case. Also the development of half of the planned solar PV park is scheduled for 2027 due to the complementarity with the existing energy portfolio. About 1,1M€ investments are planned to achieve the interim targets.

SME A also provides a tentative outlook to 2030 to start discussion with prospective investors.

Progress of the plan can be monitored via the performance of the solar PV park as it is expected to provide sufficient energy for the operation of the first electric furnace between 2027 and 2030. The managing director will evaluate the annual progress of the plan.

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Climate transition planning	2025 (tCO ₂ e)	2027 (tCO ₂ e)	2030, tentative (tCO ₂ e)
Scope 1	4950	4450	3650
Electrification of production plant	4000	3500	2700
Scope 2 (location)	50	200	550
Electricity generation	-	-200	-400
Scope 2 (total)	50	0	150
Scope 1 + Scope 2	5000	4450	3800
Investment (Capex, k€)	-	(1100k€)	(1400k€)

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