

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion, or position papers, or in any other form considered appropriate in the circumstances.

EU Voluntary Sustainability Reporting Standard for non-listed SMEs that are outside the scope of CSRD – Issue Paper

Objective

- 1 The objective of this paper is
 - a. to present to the SR TEG the outcome of the work of EFRAG PTF ESRS (cluster 8 on SMEs) to develop voluntary sustainability reporting standard to be applied by non-listed small and medium-sized undertakings that fall outside the scope of the Corporate Sustainability Reporting Directive (CSRD);
 - b. to support the discussion of the content of this voluntary standard, including to obtain feedback from SR TEG on the further work to be done in order for the voluntary standard to become an Exposure Draft that EFRAG could consult on in the next few months.

Background

- 2 Besides its legal mandate to develop ESRS for SMEs listed in regulated markets, EFRAG is expected to develop a proposal for the adoption of voluntary sustainability reporting standard (VSRS) that may apply to small and medium size undertakings that are not falling in the scope of CSRD.
- 3 The VSRS SME would not be legally binding but aims to be consistent with the CSRD by applying the ESRS disclosure principles with the highest degree of proportionality and simplification.
- 4 The need to develop voluntary reporting standards for small and medium-sized enterprises was identified by the EU Commission Impact Assessment¹ accompanying the CSRD in 2021. The same need was expressed by key stakeholders during the work of the EFRAG PTF-ESRS. (see Cover Note 02-01)
- 5 The [draft] VSRS SME was developed by the EFRAG PTF-ESRS from June 2021 to July 2022. While doing so, the PTF relevant cluster examined and analysed the scope and the boundaries set by CSRD as well as the feedback from key

¹ COMMISSION STAFF WORKING DOCUMENT IMPACT ASSESSMENT Accompanying the document Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting

stakeholders. The development of VSRS SME was also informed by the EFRAG SMEs Experts Working Group.

- 6 The [draft] VGSME was however not included in the April-August 2022 ESRS Set 1 public consultation after considering the staggered effective dates for adopting ESRS and the need to consider the potential alignment of the VSRS SME with the amended draft sector-agnostic ESRS.

Content and characteristics of the [draft] VSRS SME

- 7 The [draft] VSRS SME is presented in the appendix 1 to this document.
- 8 The proposal drafted by the PTF-ESRS indicates that VSRS SME aims to ensure a fair and proportionate inclusion process for the unlisted SMEs.
- 9 The PTF-ESRS received critical feedback on the draft proposals of VSRS SME from key stakeholders large and small banks, accountants, auditors and specialists in standard setting, representatives of NGOs specializing in social impacts, and academics. This feedback contributed particularly to simplifying the ESRS language used to describe the reporting principles as provided by CSRD.
- 10 Consistent with the conceptual approach and architecture of the draft ESRS sector-agnostic standards, the [draft] VSRS SME describe the reporting requirements related to the strategy, the business model and the topical matters for governance, environment, and social responsibility of the undertaking. It covers the minimum level of disclosures and the need for accurate, comparable, and verifiable information. In addition, the draft proposal provides a definition of the principle of proportionality.
- 11 As noted, the [draft] VSRS SME has a similar architecture to the draft ESRS sector-agnostic standards and covers:
 - Context
 - General Requirements for reporting quality, comparable and material information in alignment with the draft ESRS sector-agnostic standards.
 - 48 total disclosures requirements.
- 12 The [draft] VSRS SME includes several principles which need to be formally validated by the EFRAG SR TEG and SRB.**
 - a. To ensure a proportionate inclusion process for the SMEs that are not listed, the [draft] VSRS SME does not include disclosure requirements related to the SFDR and the Taxonomy Regulation or any other regulation. Those provisions are proposed to be included in the (draft) European Sustainability Reporting Standard for listed SMEs. The listed SMEs ESRS could be used by non-listed SMEs if they wanted to voluntarily report on the SFDR or Taxonomy Regulation provisions.
 - b. To ensure a proportionate inclusion process for the SMEs that are not listed, the [draft] VSRS SME does not include voluntary sector-specific requirements. The (draft) ESRS for listed SMEs will be completed by the sector-specific layer. Those requirements could be used by non-listed SMEs if they wanted to voluntarily report on sector-specific requirements.
 - c. The current [draft] VSRS SME (par 5 (a)) proposes that voluntary reporting for non-listed SMEs be prepared every year or two years.

- d. The current [draft] VSRS SME (par 7 (a)) requires the digitisation of the voluntary disclosures to ensure a proportionate inclusion process for the SMEs that are not listed, the secretariat considers that digitisation should not be required for non-listed SMEs, or required as an option only.
- 13 The members of cluster of PTF-ESRS that authored the available draft will present it at the 17 November 2022 EFRAG SR TEG meeting to collect feedback on the draft and the next steps.

Possible options on the format and content of VSRS SME

- 14 The options presented below shall be looked in connection with the completion of the “ESRS” building blocks system. That may result as follows: i) VSRS SME as the core level “building block”, ii) the second building block would consist of the “listed SMEs ESRS” and the iii) the third building block would be the “ESRS for large undertakings”. Under the modular ESRS system, the VSRS SME could be designed as a first steppingstone for non-listed SMEs in their journey towards transparency on ESG matters (see Appendix 1). Stakeholders in EFRAG ESRS public consultation and the EU Commission favour the building blocks approach. This is described in the cover note 02-01.
- 15 **Option 1:** The format and content of the [draft] VSRS SME remains unchanged.
- 16 Under this option, the format, structure, language used, and disclosures required in [draft] VSRS SME will not be modified, except for concepts that have been amended in the ESRS (such as “rebuttable presumption” (par 2.b) which should be reviewed for alignment with the ESRS.
- 17 The pros that may be identified in this option are: i) simplicity. The need for simplicity was highlighted by European Commission Impact Assessment accompanying CSRD and requested by stakeholders (in PTF-ESRS outreaches and research² and EFRAG draft ESRS public consultation); ii) tailor-made SMEs tool. This responds to concerns of some stakeholders (in PTF-ESRS outreaches and EFRAG public consultation) to have a tool that is adapted to SMEs capabilities also in terms of language and proportionally based on ESRS, iii) relatively lower operational costs as a result of the previous points.
- 18 The cons that may be identified for this option are: i) relatively limited alignment with ESRS (for example the principle “comply or explain” that is not in ESRS or the language of the [draft] VSRS SME that was purposely extremely simplified compared to the one of ESRS); ii) this may slower SMEs in upgrading to the next level of the ESRS system of building blocks.
- 19 With regards to the process, as stakeholders have already been involved in the development of the current [draft] VSRS SME, this option will allow to accelerate the process and avoid further stakeholders’ involvement before the [draft] is published for public consultation.
- 20 **Option 2:** The format and content of the [draft] VSRS SME is reviewed for a stronger alignment with the ESRS

² Links: Study_State_of_Sustainable_Economy_Germany.pdf (nachhaltigkeitsrat.de) (in German), EBRD Business Guide <https://businessguide.ebrd.com/>; EU Sustainability Taxonomy for non-financial undertakings: summary reporting criteria and extension to SMEs; EFAA REPORT: How Small- and Medium-sized Practices can Support the Sustainable Transition of SMEs: Insights from Experts

- 21 Under this option, changes are necessary to create further alignment between the VSRS SME, the ESRS for listed SMEs and the ESRS for large undertaking as follows (list not exhaustive):
- Align terminology with the ESRS and add a Glossary
 - Align architecture with ESRS
 - Review the disclosure requirements of the [draft] SME VSRS to bring them closer to the requirements of the ESRS
 - Add Application Standards
- 22 Under this option the core principles of the ESRS are introduced, the same language and terminology are used, the architecture is similar to ESRS while keeping proportionality at core.
- 23 The identified pros of this option are: i) greater connections with ESRS. This would cater for a more consistent building block system that would also be welcomed by stakeholders (EFRAG draft ESRS public consultation); ii) potential better fit with the ESRS system building block with faster possibility to move to the next level (i.e. ESRS for listed SMEs) and fulfill growing stakeholders needs (value chain or regulatory driven trickle down effects)
- 24 The identified cons of this option are: i) potential greater implementation difficulty, due to higher level of complexity when [draft] VSRS SME is closely aligned with ESRS; ii) potential higher implementation costs due to need to acquire expertise or IT tools, etcetera.

SR TEG is requested to indicate their preferred option or to suggest other options not considered by the secretariat.

Possible timeline for VSRS SME

- 26 The following next steps are proposed:
- Mid- Nov. – Mid December 2022:
 - o Presentation to TEG of the [draft] VSRS SME drafted by PTF-ESRS (Cluster SMEs);
 - o Discuss proposal with the Commission (DG FISMA; DG Grow and DG Justice);
 - o Connect draft with final draft ESRS (“Mapping ESRS”);
 - o Under Option 2:
 - Align language (use common Glossary) with ESRS;
 - Align architecture and disclosure requirements with the ESRS
 - Introduce application standards
 - Mid Dec 2022. – Mid Jan. 2023
 - o Under Option 2: Invite Experts Working Group (representing key stakeholders of SMEs) to provide feedback
 - o Test the draft to a pre-selected Group of SMEs (non-listed) from different but key sectors (agriculture; construction, manufacturing, IT and financial services, tourism, and transportation) and other services – with the support of members of the SR TEG and SRB.

- Revised [draft] VSRS SME: approval by SR TEG and SRB February 2023:
 - o Final [draft] VSRS SME: launch of public consultation exposure draft for 3 months

Questions to SR TEG members and observers

- 1 Do EFRAG SR TEG members agree to use the available draft prepared by the Cluster 8 of EFRAG PTF as a basis for EFRAG VSRSSMEs?
- 2 What changes would members recommend to the available draft in order to be used as EFRAG exposure draft ad consultation document in the coming months? (see also Q.3)
- 3 Which of the options presented in par 14 to 25 should be pursued: Option 1 (format and content unchanged), Option 2 (stronger alignment with ESRS)? Both shall be looked as part of the ESRS building block system)
- 4 Do the SR TEG members agree with the timeline presented in par 26?
- 3 Do the SR TEG members agree with the following principles to ensure a proportionate inclusion process for the SMEs that are not listed?
 - a) The [draft] VSRS SME neither includes provisions of the SFDR and the Taxonomy Regulation nor other sustainable finance regulation.
 - b) The [draft] VSRS SME does not include voluntary sector-specific requirements (sector-specific layer will be part of ESRS listed SMEs)
 - c) The voluntary reporting for non-listed SMEs is to be prepared every year or every two years.
 - d) The [draft] VSRS SME does not require the digitisation of the voluntary disclosures.

Appendix 1: [Draft] Sustainability Voluntary Reporting Standard (SMEs)



[Draft] Sustainability Voluntary Reporting Standard (SMEs)

LAST UPDATED 21.07.2022

[DISCLAIMER]

This document is a technical working paper intended solely for the internal use of PTF-ESRS members, supporting debates in Plenary meetings. It is not open to public consultation but serves as work-in progress document leading to the exposure drafts to be submitted to a future public consultation. Significant changes to this working paper may arise from the subsequent steps of the due process. This working paper should therefore not be interpreted in any way whatsoever as representing the views of the PTF-ESRS as a whole at this stage, nor the position of relevant co-construction partners. Also, the content of this working paper is the sole responsibility of the PTF-ESRS and can under no circumstances be regarded as reflecting the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA).

[Draft] Sustainability Voluntary Reporting Standard (SVRS) for Small and Medium Sized Enterprises (SMEs)

Objective

This [draft] Sustainability Voluntary Reporting Standard (in brief SVRS) prescribes concepts and principles to be applied by undertakings for the preparation of voluntary sustainability statements, and prescribes, as well, the key information to be disclosed.

Context

- 5 1. The proposal for a Voluntary Reporting Standard (SVRS) is aligned with the objectives of the European Commission’s proposal for a Corporate Sustainability Reporting Directive (“*the Commission will adopt standards for large companies and separate proportionate standards for listed SMEs*”).
- 6 2. This is a voluntary sustainability reporting standard for all undertakings that need to commit at a core level (applicable to all companies regardless of the sector of activity) using standardized requirements to inform key stakeholders on sustainability related matters. It is also a management tool for sustainability matters for all undertakings that want to engage in a process of measuring, monitoring and managing considering relevant information.
- 7 The SVRS proposal aims at:
- 8 (a) enabling the inclusion of SMEs (Small and Medium-sized Enterprises) in the transition process towards a low carbon economy,
- 9 (b) facilitating access to sustainable finance while reducing the risk of unfair competition between large, listed companies and SMEs,
- 10 (c) avoiding the risks of increasing the cost of transition for SMEs,
- 11 (d) satisfying the proportionate sustainability criteria that will be requested to SMEs by stakeholders and
- 12 (e) mitigating the outcomes of the so-called trickle-down effect³

General principles

- 13 1. The [draft] Sustainability Voluntary Reporting Standard is part of the European Sustainability Reporting Standards and follows their conceptual approaches and principles. The [draft] Voluntary Standard considers as most relevant and applicable the following reporting principles:
- 14 2. **a. Comply or explain.** The undertaking is using this [draft] Standard on a voluntary basis. The undertaking is expected to complete all the disclosures described in the [draft] standard or explain which of them are not relevant, significant or available for disclosure by the undertaking. The accessibility of data will override the obligation to report⁴.
2. b. Rebuttable presumption.
As a principle, it relates the capability of the company either to comply with the SVRS either to explain/justify the reason for not reporting specific info that cannot be collected

³ The trickle-down or value chain effect, an effect [EFAA](#) identified in relation to financial reporting. This effect is where SMEs that are not directly within scope of the proposed CSRD end up having to prepare sustainability information in any case to satisfy the information needs of larger, ‘in scope’ companies/stakeholders that are in their value chain

⁴ Source: Nordic Sustainability Reporting Standard for SMEs: https://assets.website-files.com/5ec3a3844d452c4802921c30/622af95363a1e7ebd94d53c7_NSRS_Reporting_Requirements.pdf

by the SME after making an effort to retrieve the data. It is linked to why there are missing info related to material topics.⁵

- 15 **3.a. Materiality.** Materiality is to be understood as the criterion for the inclusion of specific and relevant information in sustainability reports (relevant topics are those that are considered important to reflect the organisation’s economic, environmental, and social impacts (positive and/or negative) and/or may influence the decisions of stakeholders. and the long-term sustainability of the undertaking. The undertaking is required to disclose the information that is related to topics that may be considered as “fundamental risks⁶ or opportunities⁷” for the undertaking. The same principle applies to information related to topics that may influence stakeholders⁸.
- 16 **3.b. Double materiality** is the impact (positive or negative) an organisation has on the environment and/or the society in addition to the effect (positive or negative) the environment and/or the society has on the organisation.⁹

17 *Materiality. Technical note:*

18 *The outcomes of the materiality analysis should reflect: (i) the significance of the information in relation to the phenomenon it purports to depict or explain, as well as (ii) its capacity to meet the needs of the stakeholders of the undertaking, allowing for proper decision-making, and more generally (iii) the needs for transparency corresponding to the European public good. The implementation of materiality implies the use of thresholds and/or criteria.*

19 *The scope of the materiality analysis may cover both the effects. This includes impacts¹ directly caused by operations, products and services of the undertaking or contributed to by the undertaking in its own operations, products or services and impacts which are otherwise directly linked to the undertaking’s value chain. The effect is directly linked to the undertaking’s value chain regarding business relationships driven by business ethics and standard practices.*

20 *The outcomes of the materiality analysis are directly related to the risks and the opportunities any legal entity will have in the transition process and the improvement of its own negative effects while improving its own positive effects to people and the environment.*

21

4.a. Quality of voluntary disclosures. The commitment of the undertaking to apply the [draft] SVRS aims to provide, in the long-term, high quality, material information (consistent, accurate and comparable information) to key stakeholders, such as customers, employees, capital lenders,

¹ eg: if an undertaking cannot collect data on scope 3, it must be allowed to declare that this specific data was not possible to be collected (a supplier from outside Europe that doesn’t produce them)

⁶ **Risk** is a situation involving exposure to danger or difficulties.

⁷ **Opportunity** is a time or set of circumstances that makes it possible to achieve a positive outcome.

⁸ **Stakeholder** is a person or a group of individuals that may influence or may be influenced significantly by the operations, the products, the services or the business practices applied by the undertaking.

⁹ Source: Nordic Sustainability Reporting Standard for SMEs: https://assets.website-files.com/5ec3a3844d452c4802921c30/622af95363a1e7ebd94d53c7_NSRS_Reporting_Requirements.pdf

regulators and communities, while enabling benchmarking and ultimately facilitate the transition towards a sustainable economy.

4.b. Connectivity of voluntary disclosures Disclosures¹⁰ required according to the [draft] SVRS may influence the long-term financial sustainability of the undertaking. In view of that, the undertaking may choose to connect its financial and sustainability related information.

22 **5. a. Comparability of voluntary disclosures.** The architecture of this [draft] SVRS is aligned with the EU CSRD proposal. This "core level" of SVRS is suitable for all undertakings, as it is sector-independent (sector agnostic). It will allow for greater comparability between SMEs within and outside the EU. The undertaking needs to follow the standard uniformly (e.g. reporting consistently every year, or every two years) in order to facilitate comparability across and inter firms.

5.b. Once-only principle. The voluntary disclosures are considering and respect the "once only" principle that is the use of existing and available public disclosures to cover the information specified as required by the standard. The undertaking may use documentation or links to public sources of information to avoid duplication of reported information.

5.c. Clarity, simplicity and connectivity with ESRS. The architecture of this [draft] Voluntary Reporting Standard provides the undertaking with guidance for the implementation of the "core level", which also covers three reporting areas: (i) strategy and commitment to sustainability; (ii) implementation and (iii) performance measurement encompasses three topics: environment, society and governance. This voluntary standard also represents the premiere building-block of reporting that may facilitate the integration with possible future sector-specific and/or topical standards ("advanced level" of voluntary reporting disclosures for all legal entities)⁶.

Proportionality. This [draft] SVRS for all legal entities is based on the principle of proportionality introduced by the proposal for EU CSRD. Proportionality is defined by what is available or accessible for the organisation¹¹ at an affordable, reasonable and feasible cost. Proportionality is also defined with respect to the effect each undertaking may have on sustainability related matters¹². This voluntary standard is providing the Disclosure Requirements to estimate the proportionate impact for the SME undertaking and report accordingly. This standard is appropriate for any undertaking that bears an interest (i) to engage in the Green Transition, (ii) to be able to use sustainability reporting as a good practice relevant for the implementation of the business strategy and as a management tool. For this reason, companies that are reporting by the "core level" of this VRS are not expected to provide information other than that specified by these voluntary disclosures.

23 **7.a. Digitalisation of voluntary disclosures.** The implementation of the "core" level by all legal entities in a voluntary context will need the development of digital tools to help to support an open access to information that is critical for comparability and auditability.

24 **7.b. Alignment with other reporting standards and frameworks.** This [draft] Voluntary Reporting Standard seeks to complement the undertakings to engage and embed Corporate Social Responsibility principles and practices in their purpose and business strategy. For this reason, the basis for the development of the [draft] Voluntary Reporting Standard is a

¹⁰ **Disclosures** are information, documentation (provided as the evidence of business practices) and data related to the topics that have been recognised as "relevant" by the undertaking to keep it sustainable in the long term.

¹¹ Source: Nordic Sustainability Reporting Standard for SMEs: https://assets.website-files.com/5ec3a3844d452c4802921c30/622af95363a1e7ebd94d53c7_NSRS_Reporting_Requirements.pdf

¹² See EU proposal for CSRD/ESRS https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en; <https://www.efrag.org/Activities/2105191406363055/Sustainability-reporting-standards-interim-draft>

combination of qualitative and quantitative information fundamentally linked to responsible business practices as specified by international norms and standards, such as the Global Reporting Initiative. The definition of the voluntary standard takes also into consideration the SDGs 2030 as a relevant reporting framework for SMEs,

Disclosure Principle 1 – Entry-level information

- 25 **The undertaking shall provide a description of its name, activities, sector, turnover reporting period and employees.**
- 26 8. The principle to be followed under this disclosure is to understand the sector of activity and how the undertaking operates.
- 27 9. The disclosure shall include the following information:
- (a) The name of the undertaking;
 - (b) A description of the sector (sectors) of activity in which the undertaking operates;
 - (c) Which products and services offered and to whom, the items or services offered for sale, either in physical or in virtual or cyber form;
 - (d) The market(s) the undertaking operates in (B2B, wholesale, retail, geography...);
 - (e) The turnover;
 - (f) The number of employees in each site of activity;
 - (g) The reporting period chosen;
 - (h) Contact point (address, email ...).

Disclosure Principle 2 – Address

- 10. The undertaking shall provide the registered address of the enterprise, the address of offices and production sites.**
- 28 11. The principle to be followed under this disclosure is to understand where the activities take place.
- 29 12. The disclosure shall include the full address of the registered seat (domicile) of each office and production site.

Disclosure Principle 3– Overall mission and vision

- 30 **13. The undertaking shall disclose the purpose, (i)“why” it operates, and (ii) “how” its products and services, produced and sold, serve specific needs of people.**
- 31 14. The principle to be followed under this disclosure is:
- 32 (a) to understand the main purpose to operate (what is driving the undertaking, its motivation)
- 33 (b) the nature and type of its products and services and (c) the relationship between the purpose of the undertaking and the needs of the society.
- 34 This should serve as the basis for the analysis of what is material in terms of sustainability for the undertaking.
- 35 15. The disclosure shall include:
- 36 (a) A description of what deemed particularly notable about the role its (main) relationships with stakeholders: employees, suppliers, customers, communities (any applicable for each company) play into business as usual operations;
- (b) A description of the potential challenges, positive and/or negative effects that relate to the purpose, the business model and/or the business relationships (e.g. Where you want to go and why: why do you do what you do?).

Disclosure Principle 4. Overall strategy and commitment

37 **16. The undertaking shall disclose a description of its strategy, commitment and targets**

38 17. The principle to be followed under this disclosure is to understand how the undertaking sets its steps.

39 18. The undertaking shall provide a statement about the relevance of the business operations related to positive and negative effects on people, the environment and the financial performance. It shall also describe the strategy to pursue its commitment to reach its goals

The disclosure shall include:

- a) the overall vision and strategy for the short-term to long-term (depending on the peculiar characteristic of the business), with respect to managing the sustainability issues that are most important for the undertaking
- b) the engagement of the undertaking on specific topics related to its own operations and sustainability, the participation to business associations, underwriting of ethical codes of conduct, ...
- c) any target set by the undertaking for improvement

Disclosure Principle 5 – Sustainability /approach

40 **19. The undertaking shall disclose if it has a sustainability strategy and/or goals and what it has achieved so far.**

20. The principle to be followed under this disclosure is to understand if the undertaking has adopted a sustainability strategy and how it influences its operations. The strategy can be adapted/improved through time depending on the goals gradually achieved. The strategy can be designed and implemented within different time frames.

41 21. The disclosure shall include:

- (a) If the undertaking has a sustainability strategy

and If so:

(b) A description of its targets set; (c) A description of the performance achieved in respect to the targets set for improvement by the undertaking (for example the increased number of suppliers that follow voluntary sustainability reporting standards)

Disclosure Principle 6 – Workforce - General

42 **22. The undertaking shall provide information about its workforce.**

23. The principle to be followed under this disclosure is to understand the nature of its workforce and how the undertaking operates as a responsible employer.

24. The disclosure shall include:

- (a) The number of employees sorted by country described by detailed breakdown per Full Time Equivalent¹³;
- (b) The number of temporary and permanent employees;
- (c) Their gender and age (sorted per range);
- (d) Placements issued for trainee (apprentices).

Disclosure Principle 7 – Workforce - Health and safety

- 43 **25. The undertaking shall provide information about its measures on health and safety.** 26. The principle to be followed under this disclosure is to understand the actions, policies and practices of the undertaking to ensure a healthy and safe working environment.
- 44 27. The disclosure shall include:
- 45 (a) Working hours lost due to different reasons (absenteeism, illness, parental leave, ...);
- 46 (b) Accidents occurred (including the “in itinere” accidents also known as commuting accidents) with a description of the event and its consequences.

Disclosure Principle 8 – Workforce – Opportunities for development

- 47 **28. The undertaking shall provide information about its measures on people development and equal opportunities.**
- 48 29. The principle to be followed under this disclosure is to understand the actions, policies and practices of the undertaking to respect the rights of the people for equal and fair treatment, development of professional skills and competences and balance between working and family life.
- 49 30. The undertaking shall include:
- 50 (a) Working hours or spending related to the development of skills and competences, either through formal or informal forms of capacity building (including execution of multitasking programs, participation in meetings or events related to specific material topics, such as climate change emissions);
- 51 (b) Employee engagement practices (community volunteer work, remuneration of performance; parental leave and diversity measures)

Disclosure Principle 9 – Customer relations and responsibility

- 31. The undertaking shall provide information about its measures to respond to customer needs and priorities related to sustainability.**
- 52 32. The principle to be followed under this disclosure is to understand the actions, policies and practices of the undertaking to respect the rights of the customers to product safety, personal data safety and transparency.
- 53 33. The undertaking shall include a description of:
- 54 (a) Product safety policy and sources of potential risks under control by the undertaking;
- 55 (b) For manufacturing companies: Systems in place to manage potential risks related to product safety;

¹³ The calculation of full-time equivalent (FTE) is an employee's scheduled hours divided by the employer's hours for a full-time workweek.

- 56 (c) Forms and outcomes of customer engagement practices (e.g. report and web side disclosures, customers' surveys, etc.);
- 57 (d) Personal data safety policy.

Disclosure Principle 10 – Shareholder structure and governance¹⁴34. The undertaking shall provide information about its governance and shareholder structure including the nature of ownership and the legal form of the organization.

- 58 35. The principle to be followed under this disclosure is to understand its ownership, whether it is incorporated, a partnership, a sole proprietorship or another type such as a non-profit, an association or a charity.
- 59 36. The disclosure shall include:
 - 60 (a) The organization's legal form;
 - 61 (b) A description of the ownership structure;
 - 62 (c) A description of roles and responsibilities of its manager(s).

Disclosure Principle 11 – Partners and value chain

- 63 **37. The undertaking shall disclose the enterprises that have some form of direct and formal relationship for the purpose of meeting its business objectives, describing its value chain.**
- 64 38. The principle to be followed under this disclosure is to understand how the undertaking relates to other businesses. This includes entities with which the undertaking has a business relationship (e.g., suppliers and distributors/customers). This information shall allow an understanding of the sustainability impacts, risks and opportunities in the value chain.
- 65 39. The disclosure shall include:
 - 66 (a) A general description of the activity of the enterprises operating in the value chain (suppliers and sellers/distributors) that contribute to the entity's own products or services representing a % of the turnover and/or cost of sales considered significant by the undertaking;
 - 67 (b) Entities involved and their geographical location;
 - 68 (c) Goods and services bought and sold by/to these entities.

Disclosure Principle 12 – Energy and carbon emissions (CO₂)

40. The undertaking shall disclose the actions taken in the reporting period to improve its energy efficiency and to lower related carbon emissions

- 69 41. The principle to be followed under this disclosure is to understand if the undertaking considers the actions to improve energy efficiency and also lower its carbon emissions as a source of risks and opportunities, and how it deals with them.
- 70 42. The disclosure shall include:
 - 71 (a) Energy consumption in MW as expressed in utility billings (with the breakdown between renewable and non-renewable sources);
 - 72 (b) The changes in energy consumption expressed in MW referred to the previous reporting period;

¹⁴ the way that organizations are managed at the highest level, and the systems for doing this (source: online Cambridge Dictionary)

- 73 (c) If available, CO₂ equivalent tons¹⁵ (tCO₂-eq) of GHG emissions (commonly defined as scope 1 and scope 2)¹⁶;
- 74 (d) If available, the changes in direct emissions referred to the previous reporting period;
- 75 (e) A description of the risks in relation to the reduction of carbon emissions (also in light of the increasing requirements on emissions related to CO₂)¹⁷;
- 76 (f) A description of the opportunities in relation to the reduction of carbon emissions;
(g) A description of how risks and opportunities in relation to the past financial performance and how they may relate to future financial performance
(h) A description of how the undertaking intends to pursue opportunities and/or risk mitigation.

Disclosure Principle 13 – Responsible Business Practices

43. The undertaking shall describe if goods and services are sourced/traded following responsible business practices.

- 77 44 The principle followed under this disclosure is to enable a better understanding of the effect of the undertaking on the value chain (goods/services purchased and sold).
- 78 45. The disclosure shall include:
 - a. How many suppliers among the total that are also using voluntary sustainability standards to engage with clients and suppliers;
 - b. How many suppliers request, collect and/or share sustainability related data and methodologies in the value chain the undertaking is engaged with;
 - c. Collaborative actions either with a sector/industry specific approach and/or with local stakeholders on sustainability topics.

Disclosure Principle 14 – Pollution, consumption and waste management

46. The undertaking shall describe how it manages material consumption, waste and pollution.

- 47. The principle followed under this disclosure is to provide an understanding of the impact of the undertaking on the environment
- 79 48. The disclosure shall include:
 - d. A description of recycled goods and material bought and sold (expressed in the metric system commonly used for the specific type of product/good/material by the undertaking);
 - e. A description of retrieved products for recycling purposes;
 - f. Water consumption as expressed in utility billings or in cubic meters if taken from other sources than the main network;
 - g. Water discharge if applicable (e.g. water used and wasted during the process);

¹⁵ the main difference between CO₂ and CO₂-eq is that CO₂ only accounts for carbon dioxide, while CO₂-eq accounts for carbon dioxide and all the other gases as well.

¹⁶ Also depending on the availability of public tools free of charge that allow the conversion of energy data into GHG emissions.

¹⁷ <https://ec.europa.eu/clima/eu-action/european-green-deal/european-climate-law>

EU Voluntary Sustainability Reporting Standard for non-listed SMEs outside the scope of CSRD – Issue Paper

- h. If available, a description of the contract with a waste management company;
- i. A description of the waste generation (expressed in the metric system commonly used for the specific type of product/good/material by the undertaking);
- j. A description of the waste diverted to recycle or reuse (expressed in the metric system commonly used for the specific type of product/good/material by the undertaking);

Defined terms

80 This appendix is integral part of the [drat] SVRS

81 Sustainability <i>EU Voluntary Sustainability</i>	82 refers to Sustainable development. It was defined in the World Commission on Environment and Development's 1987 Brundtland report 'Our Common Future' as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. 83																				
84 Undertaking	refers to the «entity » (company or organization) adopting voluntarily the use of the standard to prepare a sustainability report of any form. 85																				
86 SME	<p>Small and Medium Sized Enterprise. A small or medium sized enterprise is defined by the combination of : 1) the number of employees and 2) the Annual turnover</p> <table border="1" data-bbox="584 546 1543 752"> <thead> <tr> <th>Company category</th> <th>Staff headcount</th> <th>Turnover</th> <th>or</th> <th>Balance sheet total</th> </tr> </thead> <tbody> <tr> <td>Medium-sized</td> <td>< 250</td> <td>≤ € 50 m</td> <td></td> <td>≤ € 43 m</td> </tr> <tr> <td>Small</td> <td>< 50</td> <td>≤ € 10 m</td> <td></td> <td>≤ € 10 m</td> </tr> <tr> <td>Micro</td> <td>< 10</td> <td>≤ € 2 m</td> <td></td> <td>≤ € 2 m</td> </tr> </tbody> </table> <p>87 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32003H0361</p>	Company category	Staff headcount	Turnover	or	Balance sheet total	Medium-sized	< 250	≤ € 50 m		≤ € 43 m	Small	< 50	≤ € 10 m		≤ € 10 m	Micro	< 10	≤ € 2 m		≤ € 2 m
Company category	Staff headcount	Turnover	or	Balance sheet total																	
Medium-sized	< 250	≤ € 50 m		≤ € 43 m																	
Small	< 50	≤ € 10 m		≤ € 10 m																	
Micro	< 10	≤ € 2 m		≤ € 2 m																	
88 Materiality	<p>Refers to the criterion for the inclusion of specific information in sustainability reports. It reflects (i) the significance of the information in relation to the phenomenon it purports to depict or explain, as well as (ii) its capacity to meet the needs of the stakeholders of the undertaking, allowing for proper decision-making, and more generally (iii) the needs for transparency corresponding to the European public good. The implementation of materiality implies the use of thresholds and/or criteria. (draft ESRS G1)</p> <p>89</p>																				
90 Double materiality	91 Refers to the concept which provides criteria for the determination of whether a sustainability matter has to be included in the undertaking's sustainability report. Double materiality is the union (in mathematical terms, i.e., union of two sets, not intersection) of impact materiality and financial materiality. A sustainability matter meets therefore the criteria of double materiality if it is material from either the impact perspective or the financial perspective or both perspectives.																				
92 Impact	93 A sustainability matter is material from an impact perspective if it is connected to actual or potential significant impacts by the undertaking on people or the environment over the short-, medium- or long-term. 94																				
95 Risk	is a situation involving exposure to danger or difficulties. 96																				
97 Opportunity	is a time or set of circumstances that makes it possible to achieve a positive outcome.																				
98 Stakeholder	<p>Refers to those who can affect or be affected by the undertaking's decisions and actions. The undertaking shall identify its two main groups of stakeholders:</p> <p>(a) affected stakeholders: individuals or groups that have interests that are affected or could be affected – positively or negatively – by the undertaking's</p>																				

		<p>activities and through its value chain; and</p> <p>(b) users of sustainability reporting: stakeholders with an interest in the undertaking:</p> <p>i. existing and potential investors, lenders and other creditors (including asset managers, credit institutions, insurance undertakings); and</p> <p>ii. business partners of the undertakings, trade unions and social partners, civil society organisations and non-governmental organisations.</p>
99	GHG	100 A greenhouse gas (GHG or GhG) is a gas that absorbs and emits radiant energy within the thermal infrared range, causing the greenhouse effect. GHGs are the six gases listed in the Kyoto Protocol: carbon dioxide (CO ₂); methane (CH ₄); nitrous oxide (N ₂ O); hydrofluorocarbons (HFCs); perfluorocarbons (PFCs); and sulphur hexafluoride (SF ₆).
101	Scope 1 GHG emissions	102 Refers to direct GHG emissions evolving from the undertakings' own operations, from sources that are owned or controlled by the undertaking
103	Scope 2 GHG emissions	104 indirect GHG emissions evolving from the undertaking's supplier of energy to support the undertaking's operations. Scope 2 accounts for GHG emissions from the generation of purchased electricity consumed by the undertaking. Purchased electricity is defined as electricity, steam and heating/cooling that is purchased or otherwise brought into the undertaking. Scope 2 emissions physically occur at the facility where electricity, electricity, steam and heating/cooling is generated.
		105 106
107	Scope 3 GHG emissions	108 indirect GHG emissions evolving from the transportation of goods, materials and people servicing the operations of the undertaking
		109

Appendix 2 – Appendix

This appendix aims at providing a visual summary of the potential building blocks for Sustainability Reporting once EFRAG will have completed the full set of ESRS and VSRS.

