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LSME and VSME – update session Cover Note

Objective

1. The purpose of this session is to provide an update on LSME and VSME and obtain from the SR Board an orientation on the approach to VSME.
2. The following two elements will be part of the update (with two support papers):
 - a. Update on the building blocks and how it reflects the simplifications applied in draft LSME ED and in the draft VSME ED
 - b. Update on the general approach to LSME, which will be illustrated in the basis for conclusions. Focus of this update will be on:
 - i. on entities in scope,
 - ii. individual sustainability statement,
 - iii. remind of the simplifications embedded in the draft.

Role of VSME and entities in scope

3. As discussed in previous SRB meetings, VSME is outside EFRAG’s mandate in the CSRD and derives from the market need for a point of reference to be used by counterparties in the value chain upstream of SMEs and lenders, when they define their data requests from non-listed SMEs and to support non-listed SME in the start of their sustainability journey. Its value and concrete benefits will crucially depend on the level of market acceptance and recognition that this document will ultimately achieve as a standard for data collection requests by lenders and large companies.
4. The research conducted by the EFRAG Secretariat with various banking and other organizations confirm that in this context the scope of SMEs also include micro entities, which are the vast majority in Europe: they are 20.5 millions on a total of 22 millions. This is also consistent with the message provided by SME-United and EBF (who supported the development of the prototype prepared by a group of experts – Cluster 8 - under the aegis of the EFRAG PTF ESRS).
5. **VSME has no legal role in defining the value chain cap.** Draft LSME ESRS is the document that defines the limit of information that large undertakings are expected to collect from their counterparties in the supply chain, in line with art 29b(4) CSRD.
6. The level of sophistication of the content of VSME depends on the target population, with two extremes described below:



- a) if micro-undertakings are not included (only small and medium undertakings), the content in principle could be the same as for LSME (with the exception of possible additional simplifications as VSME is not bound to the limits imposed by its role of defining the CAP for large undertakings).
 - b) If micro-undertakings are in scope, the guidance would need to be significantly simpler than LSME, if not limited to a dataset of few selected key metrics. This is because, according to their legal obligations, micro entities do not prepare a management report/commentary, but they only prepare very simplified financial statements subject to national laws (see Appendix 1). It would therefore be disproportionate to expect that on a voluntary basis that these entities would be able to prepare structured narrative disclosure.
7. Under option b) the EFRAG Secretariat would like the SRB to consider whether a simplified list of selected metrics could be envisaged, to serve as tool specifically targeted for micro-undertakings. This could build on the metrics-only component of the current VSME proposal as a sort of ‘data set’, where only few metrics are included. This data set would have to meet the users’ needs of companies that are upstream the value chain of micro-undertakings and of lenders.

Remind of SRB decision and the building blocks

8. As a reminder, the building block approach was conceptually integrated in the design of the draft LSME ESRS and the VSME working paper¹ as part of the methodology established in January and February 2023.
9. At the SRB meeting on **27 January 2023, the SRB agreed to:**
 - i) *start with LSME;*
 - ii) *do not overdo LSME (proportionality) - but within the remit of the CSRD constraints;*
 - iii) *once LSME basis is stabilised, consider VSME (incl. the current draft) from a consistency and additional proportionality perspective;*
 - iv) *potentially consider merging LSME and VSME if appears relevant. The overall purpose is to make available a standard for the two populations (listed and non-listed SME) in same timeframe.*
10. According to the decision above, and to the consideration on the role of VSME and the scope that would include also micro undertakings, the EFRAG Secretariat and SR TEG have been working on the content of a **building block approach** as presented at

¹ Proposals on a possible VSME by former EFRAG PTF (cluster 8). See Issue Paper 03-01 SR TEG 17 November, Appendix 1 [Download \(efrag.org\)](#)



SRB meeting on 7 February. The components of this building block are described in **Agenda Paper 03.03** and can be summarized as follows:

- VSME first step: Metrics data-set
- VSME second step: Metrics data-set + narrative information on general disclosures and PTA
- VSME third step: Metrics data-set + narrative information on general disclosures and PTA + EU datapoints module
- LSME = VSME third step + datapoints due to value chain cap (and adjustments due to the consolidated view in VSME versus individual view in LSME)
- ESRS Set 1 (EC DA June 2023).

Consult on LSME, building-block approach and VSME jointly

11. The EFRAG Secretariat would suggest the SRB to consider consulting on LSME and VSME at the same time. This will allow to collect feedback on:

- a. the entire logic of the building blocks,
- b. the market acceptance of VSME,
- c. the population of SME in target,
- d. the suitability of the different modules of the building block to ultimately allow flexibility, if the population in scope of VSME is too diversified.



SR TEG on 19 and 21 June and on LSME Community workshop 26 June

12. The general approach to LSME ESRS and the building blocks were discussed on 19 June (public session) and 21 June (closed drafting session) at SR TEG meetings. On 21 June SR TEG discussed latest changes in LSME v2.3 draft working papers. This included the changes stemming from EC Delegated Acts ESRS set1 and in particular the disclosures that have been made voluntary. Those are highlighted in red in the v2.3 draft working paper which is made available to the SRB. SR TEG tentatively agreed to delete from LSME the new voluntary datapoints that are not problematic from a value chain cap perspective.
13. The LSME community will also discuss on 26 June those same topics: general approach to LSME, building blocks (LSME and VSME), main simplifications in v.2.3 LSME working papers and approach to take in LSME for the new “voluntary disclosures” in EC DA ESRS set1. Discussions will be based on a questionnaire sent in advance. A verbal debriefing will be provided to SRB members during the session on 28 June.



Questions to SRB

1. Presentation of revised **Building Block approach**. Please refer **to agenda paper 03-03** that provides a detailed explanation of the building blocks and contains questions at the end to guide the discussion.
2. **Orientation on VSME**
 - 1) Do you agree to consult on the scope of VSME and whether it should be tailored to cover micro-undertakings?
 - 2) Do you agree to include a separate component in the building block, which would be a simplified data-set with only few metrics? And to test this usefulness with banks and corporates that are counterparties in the value chain? Please explain
3. Validation of the approach to the basis for conclusions for the [draft] LSME ESRS: please refer to agenda paper 03-02 that contains the main simplifications and methodological approach of the LSME ESRS. Please refer to the question at the end of agenda paper 03-02 to guide discussion.

Agenda Papers

4. In addition to this cover note, agenda papers for this session are:
 - a. Agenda paper 03-02 – Input paper basis for conclusions; Agenda Paper 03-02A List of LSME DRs
 - b. **Agenda paper 03-03 – Building blocks approach.**
 - c. Background folder SR TEG 21 June (LSME ESRS v2.3 draft working papers).



Appendix 1: EU Reporting requirements

Type of enterprise	EU Accounting Directive	IFRS	Tax Regime	Austria	Belgium	Germany	Ireland	Spain	Sweden
Non-listed	Micro	Minimum requirement on Financial Statements : - Balance sheet - Profit & loss account (Subject to Member States transposition law)	IFRS Foundation (2013). A Guide for Micro-sized Entities Applying the IFRS for SMEs (2009).	In general the tax results are based on the accounting result. Differences between the tax result and the accounting result are documented in separate tax calculation/declarations. In practice, preparers indicate that they produce tax accounting. (Zager & Decman, 2016)		Social balance sheet (minimum requirements)		Management report (no non-financial information)	Management report (no non-financial information)
	Small	Financial Statements: - Balance Sheet - Profit and loss account - Management report: environmental & social aspects (subject to national transposition and option to waive obligation at national level)	IFRS SMEs		Management report (no non-financial performance information required)	Social balance sheet	Reduced Management report (no non-financial information)	Management report (no non-financial information)	Management report (no non-financial information)
	Medium	Financial Statements: - Balance Sheet - Profit and loss account - Management report: environmental and social aspects (option to waive on national level)	IFRS SMEs		Management report (no non-financial performance information required)	Management report and; Social balance sheet	Management report	Full Management report (no non-financial information)	Management report (no non-financial information)

Sources: [European Federation of Accountants and Auditors for SMEs \(2018\)](#); [Accountancy Europe, CSR Europa & GRI \(2017\)](#); [Zager & Decman \(2016\)](#), [Guidelines and Recommendations for Improving the Micro Entities Model of Financial Reporting](#).

