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VSME: Strategic orientation discussion based on public consultation feedback

Objective

1. The objective of this paper is to present to EFRAG SRB the results of the field test and public consultation of the VSME ED and to get EFRAG SRB approval on the changes to be implemented in the ED for its finalization. To facilitate the discussion, the EFRAG Secretariat has prepared suggested orientations presented in this paper.
2. This paper focuses on the **general/strategic aspects of the ED**, i.e. the architecture, the modular approach, the basis for preparation and materiality, a focus on the narrative module, the approach to sectors, the value chain cap, the general reactions of the respondents to each of the three modules.

Background

3. The EFRAG Secretariat has analysed and summarised the responses received on the VSME Exposure Draft (VSME ED) received both online and via comment letters. The VSME ED was subject to public feedback from the 22 January 2024 to 21 May 2024. In parallel to the public consultation, EFRAG Secretariat has conducted a field test with preparers and users of the VSME ED to further test the usability of the standard.
4. This paper presents the EFRAG Secretariat proposed orientations to address comments from the field test and public consultation. They will support the SRB decision on strategic direction about changes to the standards before they are finalized.
5. The detailed analysis of the feedback from the field test and public consultation has been summarised in the reports of both the field test (agenda paper 05-07), public consultation online survey (agenda papers 05-03 and 05-04), and comment letters outside online survey (agenda paper 05-05 and 05-06). The table below considers all feedback.

Summary of VSME respondents’ views and proposed orientations from EFRAG’s Secretariat

- 6. In this section, an overview of the main points emerged from the VSME Field Test (highlighted in grey) and Public Consultation together with the proposed EFRAG Secretariat orientation is provided.
- 7. In the table the conclusions are progressively numbered:
- 8. ACT means Possible action after the delivery of VSME to the EC;
- 9. TBD means Item to be discussed at the SRB (cross cutting);
- 10. CCS means change to VSME cross cutting content;
- 11. ENV means change to VSME environmental content;
- 12. SOC means change to VSME social content;
- 13. GOV means change to VSME governance content.

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General considerations

Topic		Preparers	Users	Other	EFRAG Secretariat Orientation	Conclusion
<p><i>Implement VSME as an online active tool</i></p>	<p>FIELD TEST</p>	<p>Both preparers and users mentioned that transforming the VSME in an online tool would facilitate the reporting as well as the comparability of information. The availability of a central repository (inspired by the existing platforms) where SMEs can populate online templates and banks and other counterparties can have access to the data is essential, in order to realise the expected benefits. The questionnaires would be replaced by the download of data from this source.</p>		<p>N/A</p>	<p>The availability of online tools and reliable databases is critical. EFRAG plans to actively engage with an entire ecosystem of tools and initiatives to bring SME tools created sometimes by international NGO and institutions through national partner organizations to the SME of each EU country.</p>	<p>ACT 1</p>
	<p>PUBLIC CONSULTATION</p>	<p>SMEs: <u>Transform the VSME in an online tool</u> which could ease the reporting of the standard.</p>	<p>The success of the VSME depends on a central European software interface into which the reporting companies can enter their data which then becomes accessible to BP counterparties. Banks: request to accompany VSME by pre-set questions, online calculation tools and add guidance. The CBA also indicates that access to business opportunities and lending through an online platform is a precondition for users and preparers to deploy the full benefits of VSME.</p>	<p>Standard Setters: <u>Most suggest transforming VSME in digital:</u> i) Text VSME and ii) operational reporting tool with an online template. Relocate current guidance as hyperlinks, tutorials, free calculation online tools. EFRAG to create free online tools. One asks for a machine readable VSME report to “digitise” these reports. European Standardisation Organisations: Additionally, SME Helpdesks, reporting checklist and toolboxes are requested. All of these should be available in all national languages. In addition, a network of business associations representing SMEs to promote the VSME adoption should be set up to support the local businesses. More needs to be done to ensure that SMEs do not have to rely on external consultants which they may often not afford.</p>	<p>EFRAG could make available the XBRL taxonomy for VSME to support the digital circulation of these data. EFRAG plans to engage with national initiatives and the EC to support the methodologic consistency of this exercise.</p>	<p>ACT 2</p>

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Topic		Preparers	Users	Other	EFRAG Secretariat Orientation	Conclusion
<i>Double Materiality (par. 42 to 57)</i>	FIELD TEST	<p>Materiality analysis identified as very difficult and costly (need for external consultants).</p> <p><u>Proposals to simplify materiality:</u></p> <ol style="list-style-type: none"> a very basic <u>step-by-step guidance</u> for materiality analysis, with visuals and an online scroll-down menu. <u>Pre-defined grid of sector material matters</u> could help. 	<p>For users, the materiality analysis remains relevant and informative.</p> <p>The user group banks/investors have highlighted concerns associated with reliability of materiality analysis, as complex for SMEs. As such, they indicated preferring to replace the undertaking materiality analysis with a <u>pre-defined list of sustainability matters by sector.</u></p>	N/A	<p>TBD 1) SRB/SR TEG to advise on the following alternatives:</p> <ol style="list-style-type: none"> Eliminate the requirement to disclose list of material matters (SM) and content on materiality. As alternative (1) + Assumption is that VSME would be updated to include a requirement to disclose material SM, when 	TBD 1

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Topic	Preparers	Users	Other	EFRAG Secretariat Orientation	Conclusion
PUBLIC CONSULTATION	<p>SMEs: Split views: some (SME associations) suggest <u>deleting</u> materiality and replace it with “if applicable” or a pre-defined list.</p> <p>The CBA also suggests deleting the materiality analysis completely, in the full benefits scenario.</p>	<p>Banks: Split views: 50/50 agreeing with financial materiality and majority agreeing on impact materiality. A request by national and European banking associations to <u>delete</u> the materiality analysis in the BPM. Some suggest using “if applicable’.</p> <p>A request for materiality analysis in the BPM through a digital questionnaire tool.</p> <p>Additional general comments from banks: i) too complex for SMEs; ii) not reliable and could impair the ability to aggregate data (immaterial for undertaking but material at portfolio level). A European association stated if materiality is kept, additional guidance needed to allow reporting without external consultants for both the Narrative-PAT module and the BPM. Additionally, materiality principles in the BPM may be a deterrent to applying this module.</p> <p>Banking institutions may require other BPM datapoints and the materiality in the BPM, may act as a barrier to fulfilling the goal of the VSME itself. Therefore, propose to delete materiality disclosures entirely.</p> <p>Large undertakings: Split views. Some suggest deleting materiality from the BPM. Others do not disagree with the materiality principles.</p>	<p>NGOs: <u>agree with the “if applicable” approach and current status of the materiality disclosures.</u></p> <p>An NGO suggested to make financial opportunities optional.</p> <p>Standard setters: Materiality is perceived as very complex across the board; <u>increased guidance</u> is needed. A majority of standard setters disagree with materiality disclosures.</p> <p>One standard setter suggests that materiality analysis principles should be kept, but a formal materiality analysis should be voluntary. Include <u>guidance</u> and visuals/ flow charts explaining the reasoning that leads to determine whether or not a topic is material. Annex B to be simplified. Provide <u>a table for relevant material matters per sector.</u></p> <p>Accountants: increase impact materiality-related <u>guidance</u>. Make reporting on positive impact material matters possible (opportunities).</p> <p>Authorities: materiality seen as complicated. Suggestion to <u>substitute DMA with an online tool</u>, automatically generating a Sustainability report. Additional suggestion to encourage SMEs to provide brief explanations for their activities’ sustainability topics. Additional suggestion to provide list of material issues by sectors.</p>	<p>EFRAG would be ready to issue lists of SM tailored for SMEs (which will likely require public feedback as IGs).</p> <p>(3) Maintain the requirement to disclose list of SM based on appendix of SM per sectors included in VSME, but as OPTIONAL content. This appendix will be the same as for the sector ESRS (large undertakings) in draft and without being exposed for public feedback and would cover only the 8 high impact sectors. Refer to content of AR 16 for the other sectors. Update VSME with other appendices when other sectors are released.</p> <p>EFRAG Secretariat prefers alternative (1) or (2) as more aligned with the feedback.</p>	ACT 3

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Topic		Preparers	Users	Other	EFRAG Secretariat Orientation	Conclusion
<p><i>Rename BP module, merge BP+BM but without losing modularity (basic)</i></p>	FT	N/A	N/A	N/A	<p>The EFRAG Secretariat proposes to restructure the architecture of the standard based on feedback, i.e.</p> <ul style="list-style-type: none"> - Merge BP and BM to constitute a “Core” module. Identify BASIC module within the Core module the datapoints for MICRO undertakings, on the basis of the BM. - N2 see materiality above: delete (at least until sector list of SME are issued as guidance) - Move content of Narrative module to Core (N1) integrate PAT (N3) into B2. - Weak support for N4 and N5. Delete N4 (also in conjunction with elimination of materiality). Integrate N5 with N3, i.e. when policies/actions are in place indicate who is responsible. - Include Taxonomy placeholder in an additional ADVANCED module, where also incremental datapoints indicated by the banks as essential (and not covered in the ED) would be included. <p>EFRAG would develop SME IG with a list of illustrative actions/policies to be possibly used as a menu to prepare N3.</p>	<p>CCS 1</p> <p>ACT 4</p>
	PUBLIC CONSULTATION	<p>SMEs: General consensus to focus only on the BM (to include all requests from Business counterparts). The need for the BPM is recognised by a European SME association, however, the BM should be adjusted to contain more essential metrics currently present in the BPM.</p>	<p>Banks clear preference for BM + BPM that contain info essential to them. One suggests merging BPM in BM. Large undertakings: prefer BM + BPM.</p>	<p>NGOs: no support for modularity. Prioritise Narrative module. They propose to merge parts of BPM into the BM (metric parts of BPM) and some to the Narrative (PAT parts of BPM). This would create a 2 parts/ sections – VSME, where: Part 1 = Narrative PAT + BPM narrative disclosures (corresponding to ESR2) and Part 2: BM + BPM metrics (corresponding to E, S, G sections)</p>		

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Integrate the narrative-PAT Module in the CORE	FT	N/A	N/A	N/A	See previous page.	See previous page.
	PUBLIC CONSULTATION	<p>SMEs: Split views. Some suggest deleting the module, other suggest replacing the PAT with a list of actions implemented or to be implemented, others suggest making the preparers disclose existing certification that they have (ISO etc.). There is an overall element of criticality related to this module, while both European and national SME associations, suggest removing it or postponing it.</p>	<p>Banks: split views. Partly supported by banks. Some suggest deleting it, or to move parts of it to BM, other to reformulate it/ transform it into a questionnaire (one European bank). Some, in particular European and national associations of banks disagree with this Module as not useful as the others. Large undertakings: <u>do not support</u> Narrative PAT except one that considers N2 and N3 relevant. Apply it only to larger SMEs.</p>	<p>NGOs: <u>do not support deleting</u> the Narrative-PAT module on the opposite support Narrative as entry module. They propose to merge parts of BPM into Basic (metric parts) and Narrative (PAT parts of BPM). To achieve 2 parts of VSME: Part 1 = Narrative PAT + BP narrative disclosures (correspond to ERS2) and Part 2: Basic + BP metrics. Standard Setters: <u>do not support deleting</u> the Narrative-PAT module and complement narrative disclosures in the BM.</p>		
Split Business Partner Module into submodules	FT	N/A	N/A	N/A	Secretariat advises against the splitting of the BPM into submodules. Consultation feedback shows support for SFDR indicators (currently in BP) as essential also for lenders and corporates. So, all users need BP content. See proposal CCS1 above.	NO CHANGE
	PUBLIC CONSULTATION	<p>SMEs: Majority <u>suggests splitting BPM in sub-modules</u> (business partners, banks and investors).</p>	<p>Banks: Large majority <u>do want to split BPM</u> in sub-modules (except 1 European banking association). Large preparers: Split views, some do NOT want to split it as it's overcomplex (except 2 European large undertaking associations). Other respondents agree with splitting the BPM.</p>	<p>NGOs: a few NGOs were <u>against</u> this. The remaining ones did not express an opinion. Standard Setters: <u>No consensus to split:</u> 2 standard setters against 3 have no opinion; one in favour (sub-module would provide user-tailored requests). Accountants: <u>no splitting</u> of the modules into sub modules. Authorities: BPM <u>split into 3 submodules:</u> i) supply chain (related to CSRD), ii) investor needs (related to BMR and SFDR); bank needs (CSRD, Streamlined Approach and Pillar 3).</p>		

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<p>EU taxonomy disclosures (NEW)</p>	FT	N/A	N/A	N/A	<p>Include placeholder for Taxonomy disclosures, to be effective only once the PSF tool is in place.</p>	<p>CCS 2</p>
	PUBLIC CONSULTATION	<p>SMEs: do not support the inclusion of taxonomy disclosures. A European SME association suggests making it voluntary.</p>	<p>Banks: do not support inclusion until sustainable finance platform develops simplified methodology (except 2 national banking associations). (request GAR denominator not to include SMEs). A European banking association believes that taxonomy should not apply to SMEs, not even in a simplified format. At the current point in time, the EU taxonomy should not apply to SMEs.</p> <p>Large undertakings: Some do not support inclusion of taxonomy disclosure, too premature.</p>	<p>NGOs: <u>Split views</u>. 50/50 disagreeing with the inclusion. Some NGOs state that additional alignment with EU taxonomy is needed.</p> <p>Standard Setters: <u>Split views</u> on including EU Taxonomy metrics, some suggest making the voluntary, other say that it's too premature.</p> <p>Authorities: <u>placeholders for additional BPM</u> on taxonomy to include the final streamlined approach once finalised by platform.</p> <p>Accountants: <u>Overall split views</u>, with majority of accountants asking for EU taxonomy alignment.</p>		
<p>Value Chain Cap</p> <p>Please note: Two pools of respondents to VC questions. This considers feedback of those replying to VSME consultation. Feedback of those that replied to LSME consultation is in the LSME paper (for 17 July SRB).</p>	FT	N/A	N/A	N/A	<p>No changes in VSME due to feedback on VC. Gap analysis between LSME and VSME datapoints with VC coverage to be assessed as part of LSME workstream, to simplify LSME to the maximum extent possible.</p>	<p>NO CHANGE</p>
	PUBLIC CONSULTATION	<p>SMEs: Majority of respondents agree with current value chain cap. However, national and European SME associations disagree and ask for the VSME to be the value chain cap for the VSME.</p>	<p>Banks: Majority of respondents agree with current value chain cap.</p> <p>Large Undertakings: Majority of respondents agree with current value chain cap.</p>	<p>NGOs: Majority of respondents agree with current value chain cap</p> <p>Standard Setters: Majority disagrees with current value chain cap, as LSME should be closer to VSME or VSME should be the cap, or due to absence of sector modules.</p> <p>Authorities: The LSME should not be the value chain cap.</p>		

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General principles

Topic		Preparers	Users	Other	EFRAG Secretariat Orientation	Conclusion
<i>Omittance in case of not applicable or not material</i>	FIELD TEST	Many preparers underlined that certain disclosures are not applicable to them, and thus, they are not reported (i.e., omitted).	<u>Banks</u> asked that in case of omittance of a data point because not applicable, it shall be clear in VSME ED that this information shall be considered not material by users.	N/A	Assuming that VSME will be supported by an online tool (and not primarily prepared as a human readable report), the tool would require per each datapoint to explicitly select the “not applicable” option. Accordingly, an additional requirement is not needed.	NO CHANGE (only editorial)
	PUBLIC CONSULTATION	SMEs: 93% agree with the omittance.	Banks: General consensus. Additional request: Some ask that in case of non-applicability or non-materiality the undertaking should explicitly report a specific coding, e.g. "NA" for not applicable, "NM" for not material. A European banking association asks to make everything “report if you have” (non-exhaustivity).	NGOs: in paragraph. 16(b) – language creates ambiguity of whether it can be omitted or not. Standard Setters: better define “if applicable” (versus report if you have). A standard setter suggests table with datapoint type “if applicable”, “specific circumstance”, “shall”, “may” etc.	No materiality consideration on applicable datapoints, as materiality is too complex. Editorial enhancement of the “if applicable”.	
<i>Consolidation</i>	FIELD TEST	N/A	N/A	N/A	Good support to keep this principle. No change in substance proposed.	CCS 3
	PUBLIC CONSULTATION	SMEs: Split views between individual SME preparers and SME associations. National and European SME associations do <u>not support</u> consolidated reporting practices and demanded for more flexibility.	Banks: Most respondents agreed with the current consolidation of the VSME. One European banking association is against the consolidated approach stating that greater flexibility should be given to SMEs. Large undertakings: Most agreed with the current consolidation of the VSME.	Standard Setters: Split views, majority agrees with consolidation, however, some standard setters are against it. NGOs: split views. Majority of NGOs agree with the consolidation approach. Some NGOs oppose it.	Change name of the principle to be “inclusion of subsidiaries in the reported data” to avoid the term “consolidation”.	

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Topic	Preparers		Users	Other	EFRAG Secretariat Orientation	Conclusion
<i>Subsidiary exemption</i>	FIELD TEST	N/A	N/A	N/A		
	PUBLIC CONSULTATION	SMEs: Most of respondents agreed that the exemption is relevant if reporting is organized at group level. However, SME National and European associations mentioned that there is no need for an exemption as VSME is a voluntary standard.	Banks: Most agreed with the inclusion of a subsidiary exemption. Large undertakings: Majority agreed with the inclusion of subsidiary exemption. However, associations representing large undertaking users suggested that exemptions should not apply to a voluntary standard and as such the term exemption should be replaced by “option”.	Standard Setters: Most Standard setters agreed with the explicit inclusion of subsidiary exemption as it represents an opportunity to reduce burden for SMEs. NGOs: Most NGO respondents agree with the subsidiary exemption. Accountants: Most accountants agree since it serves as an incentive to consolidated reporting	Good support to keep this principle. No change in substance proposed.	No change
<i>Additional information component including sectors (VSME ED par. 11)</i>	FIELD TEST	N/A	N/A	N/A	EFRAG secretariat to define what is “common to the undertaking’s sector”.	CCS4
	PUBLIC CONSULTATION	SMEs: Most respondents agreed. Suggestion to define what is ‘common to the undertaking’s sector’.	Users: Most users agreed. Only one banking association disagreed stating that the standard should stay simple and be the entry-level for SMEs who approach reporting.	Standard Setters: The majority of standard setters agreed. One standard setter suggests better clarification of the wording in paragraph 11. NGOs: The majority of NGO respondents agreed with the inclusion of paragraph 11. Accountants: The majority of accountants agreed with the inclusion of paragraph 11.		

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Topic	Preparers		Users	Other	EFRAG Secretariat Orientation	Conclusion
<i>Positive and negative impacts (paragraph 9a)</i>	FT	N/A	N/A	N/A	Include positive impacts as voluntary, as we do for opportunities, either in para. 9 (if para. 43/57 are deleted – see above) or in para. 42/57. If paragraphs on materiality 42/57 are deleted (see above), include short definition of impacts, risks and opportunities.	CCS 5
	PUBLIC CONSULTATION	SMEs: Suggestion from European and national SME associations to also include (in B2) what the undertaking does to enhance its positive impacts.	Banks: A European banking association suggested to include/ mention the positive aspects of SMEs (own operations) in addition to negative impacts. Another European Banking association suggest using alternative wording (too much focus on negative impact) that would likely less dissuade SMEs from reporting altogether. Large undertakings: N/A.	Standard setters: Some suggested to also include the positive impacts being brought by the undertaking with its business model. Accountants: Some suggested to also include the positive impacts being brought by the undertaking with its business model.		CCS 6
<i>Sensitive information</i>	FT	N/A	N/A	N/A		NO CHANGE
	PUBLIC CONSULTATION	SMEs: most SMEs agree with the sensitive principle (paragraph 16).	Banks: most banks agree with the sensitive information principle (paragraph 16). Large Undertakings: most large undertakings agree with the sensitive information principle (paragraph 16).	NGOs: A majority of NGOs agrees with the sensitive information principle (paragraph 16). Standard Setters: most standard setters agree with the sensitive information principle (paragraph 16). Accountants: most accountants agree with the sensitive information principle (paragraph 16).		
<i>Frequency of reporting/ timing and location of report</i>	FT	N/A	N/A	N/A	No change, due to consensual view of users. In online tool, it will be possible to confirm the info that have not changed.	NO CHANGE
	PUBLIC CONSULT.	SMEs: <u>demand for flexibility</u> (not yearly): i) update information when change occurred; ii) be able to report with longer terms, at their own discretion.	Banks: Most agree with current proposed frequency of reporting. Large undertakings: Most respondents agreed with current proposed frequency of reporting.	NGOs: <u>split views</u> . No arguments reported in survey. Standard Setters: Split views. Majority agrees. Some advocate for flexibility. Accountants: agree with proposed reporting frequency.		

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Topic	Preparers		Users	Other	EFRAG Secretariat Orientation	Conclusion
	FT	N/A	N/A	N/A		TBD2
<p><i>Time horizons and coherence and linkages with disclosures in financial statements</i> (Narrative-PAT & BPM – paragraph 40 - 41).</p>	PUBLIC CONSULTATION	<p>SMEs: <i>Time horizons:</i> Most respondents agree with the time horizons proposed. However, a European SME association suggests that they should be reduced to a maximum of 1-3 years. Additional suggestion to delete par. 39 as it repeats the title. <i>Linkages:</i> A European SME association suggests clarifying paragraph 41 to include: "financial statements and / or other regulatory reports". Greater clarity should be provided on what should be understood by "other regulatory reports". Demands for robust guidance templates and drop-down menus with already prepared cross-references. It should be explained how "the information could be presented in a way that facilitates the understanding of the linkages that exist with the information reported in the financial statements".</p>	<p>Overall: banks + large undertakings: <i>Time horizons:</i> most users agree with the proposed time horizons. Some respondents with opposing views suggest reducing the time horizon to less than 5 years to 1-3 years. One large undertakings association agrees with the approach but suggests consolidating in the medium and long term. <i>Linkages:</i> some users highlight that it is essential that linkage with financial statements remains a "may" principle, encouraging coherence for clarity to investors and the integration of sustainability measures into business. There were no specific disagreeing comments.</p>	<p>Overall, most respondents in the "Other" category agree with the time horizons and linkages. NGOs: agreement linkages with disclosures and financial statements.</p>	<p>To be discussed in TEG: do we need the time horizon if we go for a list of disclosures? Is there any other way to simplify?</p>	

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<i>Double reporting, cross-referencing to other reporting frameworks</i>	FT	N/A	N/A	N/A	No change to para. 15 and general principle. To be discussed possibility to better interact with EMAS and ISO requirements for specific disclosures (<i>see dedicated paper for SR TEG discussion</i>).	NO CHANGE
	PUBLIC CONSULTATION	Support to minimise double reporting by allowing cross reference to EMAS (which includes ISO 14001).	N/A	<p>EMAS: Where simplification or guidance is needed, consider simplifying to align with, or allowing cross references to, ISO 14001 or EMAS indicators. EMAS wording to be adopted where pertinent.</p> <p>European Standardisation Organisations: SMEs to disclose the use and reliance on ISO/IEC or CEN/CENELEC and cross-reference between, VSME, CEN CENELEC standards and IASB-IFRS accounting standards to provide guidance for sustainability performance reporting over time.</p>	<p>Incorporation by reference including page number of the relevant source, provided that in the online tool version, the pdf of the source document is also made available. Include a footnote to explain this for future reference of online tools</p> <p>Refer to environmental section in dedicated paper for SR TEG discussion.</p> <p>Possible implementation guidance in the future linking VSME and CEN CENELEC standards (to be activated depending on resource availability and priority, given the pipeline of IG).</p>	<p>CCS 7</p> <p>ACT 5</p>
<i>Sector-specific dimension.</i>	FT	N/A	N/A	N/A	Strong support for EFRAG to develop sector guidance (SM and metrics) tailored for SMEs.	ACT 6
	PUBLIC CONSULTATION	<p>SMEs: Support for sector dimension. Split views on options: some (nearly a majority), request for a voluntary sector-specific approach without specific EFRAG guidance. Some others request for a common LSME-VSME guidance based voluntary sector-disclosing approach.</p>	<p>Banks: Support for sector dimension. A majority of banks request voluntary sector specific and disclosures for the SMEs (non-authoritative annex to future sector ESRS).</p> <p>Large Undertakings: Support for sector dimension, but split views on implementation. Some support voluntary application of non-listed SME sector specific guidelines.</p>	<p>NGOs: Support for sector dimension. Split views on options: Some NGOs request VSME sector-specific standards as non-authoritative guidance in the annex of the VSME. A slightly larger ratio requests the same sector-specific standards for both the VSME and LSME.</p> <p>Standard Setters: Support for sector dimension. Similar requests, with some asking for a VSME specific non-authoritative guidelines; a smaller ratio a common LSME-VSME approach.</p> <p>Authorities: Suggestion to voluntary datapoints for relevant sector-specific information + corresponding guidance.</p>	<p>EFRAG to develop guidance (SM and metrics) tailored for non-listed SMEs based on the work performed for Sector ESRS. Considering the request to simplify LSME, the same guidance could be also applied by LSME (except for SNCI as VSME are not FI).</p>	

Basic module

Topic		Preparers	Users	Other	EFRAG Secretariat Orientation	Conclusion
<p><i>General Comments –</i> General feedback on BM</p>	FT	Many disclosures may not be applicable to certain smaller SMEs and thus will not be reported/ omitted.	If omitted, users request to make it clear in the VSME ED that the omittance needs to be considered as not material by users.	N/A	Add appendix with corresponding ESRS datapoints, as done for the appendix of SFDR.	CCS 8
	PUBLIC CONSULTATION	<p>SMEs: Majority supports the BM. Necessity of online tools and additional guidance. Additionally, language is often perceived as too complex. Clarifications for the “if applicable” disclosure required. Comments on specific disclosures being difficult (see below).</p>	<p>Banks: largely support the BM. One European banking association specifies the need for further guidelines to on “if applicable” for disclosure B3-B12.</p> <p>Large undertakings: most support the BM.</p>	<p>Overall majority in support of this module.</p> <p>NGOs: Majority supports the module. Some NGOs suggest restructuring the module as mentioned in the architectural rows above.</p> <p>Suggestion to tag ESRS and SFDR datapoints to make them more visible.</p> <p>Standard Setters: majority of standard setters support the module.</p> <p>European Standardisation Organisations: legal implications (fines etc.) should be included in the standard.</p> <p>Authorities: Include a new paragraph (after paragraph 20), to encourage micro-SMEs to disclose the datapoints in the BPM, in order to unlock lending opportunities with banks.</p>	<p>Review the language to identify spaces for further understandability and simplifications.</p> <p>Explore possibility for further guidance on “if applicable” per each datapoint.</p>	<p>CCS 9</p> <p>CCS 10</p>

Narrative-PAT module

Topic		Preparers	Users	Other	EFRAG Secretariat Orientation	Conclusion
General Comments – General feedback on PAT	FT	General indication that the module presents some operational challenges for preparers (DMA being the largest challenge). Language perceived to be more complex than BM.	N/A	N/A	See above CCS1 Review drafting to use as much as possible closed YES/NO questions. C	CCS11
	PUBLIC CONSULTATION	SMEs: Narrative-PAT module disclosures are not supported by most European and national SMEs associations. Others consider it feasible if adjusted. All consider materiality extremely difficult for SMEs. Overall, N1 and N5 are supported, while on N2 and N3 there are split views between individual SMEs and European & national associations. N4 is linked to N2 and N3.	Banks: Majority of banking associations indicate that PAT module is less useful to them compared to others. They also see the <u>Narrative PAT is difficult to carry out</u> . One European banking association suggests keeping the Narrative-PAT module as voluntary but modifying N1 to N4, not essential, plus delete the materiality aspect which is too complex and resource intensive for SMEs (also mentioned by other national and EU associations). Large undertakings: most support this module. However, some <u>disagree with the content and approach</u> of this module as only the largest, and most sophisticated SMEs will report on it entirely. but business associations supporting large undertaking consider N2 and N3 not needed. Suggested more guidance.	NGOs: Majority support the module. However, those who suggested to restructure the standard in 2 modules found this current module no proportional. One NGO stated that SMEs should be given the possibility to indicate whether they have a PAT in place or not. Standard Setter: majority in favour of the module. Authorities: an authority suggests translating this module into binary (yes/no) and close ended questions. Another suggests keeping the current datapoints as they are. Another suggests adding additional datapoints related to: Actions implemented or scheduled to reduce emissions and the financial resources committed for implementation of these actions.		
N1 – Strategy: business model and sustainability –	FIELD TEST	This disclosure was generally of low difficulty for respondents, since most already collect this data. N1point (d) was the only component of the N1 disclosure that some respondents found challenging, if they had not yet developed a sustainability policy.	Can provide a holistic view of the undertaking that helps users assess the risks and opportunities the SME is facing. Lower relevance for users compared to N5.	N/A	Move N1 to B1	CCS1

Strategic orientation discussion of EFRAG SRB

Topic		Preparers	Users	Other	EFRAG Secretariat Orientation	Conclusion
<i>related initiatives</i>	PUBLIC CONSULT.	SMEs: majority of individual SMEs finds it feasible. This is the only disclosure of this module supported by European and national SME associations. Two national SME associations suggest replacing it with a list of actions implemented or to be implemented, another national SME association suggests replacing it with labels or qualifications obtained (i.e. ISO).	Users (Banks + Large Undertakings): Split views. Banks: European and national banking association consider N1 not needed. One asked to move this disclosure to the BM. One to replace it with closed questions. Large undertakings: Split views on relevance. Suggestion to have SMEs detail the sustainability actions they have already taken and future plans they might have.	NGOs: NGOs support this disclosure. Standard Setters: Essential Accountants: should be optional. One respondent suggests an “if applicable” approach. Suggestion to add NACE codes between mission-vision and SDGs.		
<i>N2 – Material sustainability matters</i>	FIELD TEST	This disclosure was rated the most difficult (with N3). More micro and small undertakings reported N2 as being more challenging than N3. Double materiality is a challenging concept. A grid of material matters by sector considered important. The involvement of the top level a concern as requires stakeholders’ engagement.	Users, specifically banks and investors would prefer to withdraw such disclosure and replace it with predefined sector materiality matrix that is what banks/investors indicated to be currently using. This also ensures comparability within sectors.	N/A	N2 see materiality above: delete (at least until sector list of SMEs are issued as guidance)	CCS1
	PUB.C CON.	SMEs: European and national SME associations request to delete the disclosure as they find it too complex. Majority of individual SMEs finds it feasible with request for simplification. Suggestion to increase guidance on the ‘top-down’ vs ‘bottom-up’ approach. Expert guidance will be needed. Impact descriptions should be qualitative and conditional.	Users (Banks + Large Undertakings): overburdens SMEs per majority. Policies and guidelines are not a solution, perceived as impractical. Banks – Specific: European and most national banking associations consider N2 unnecessary but small majority (of individual banks and some investors) considers it essential. Large Undertakings Specific: business associations consider N2 not needed. Some consider essential but less granularity. Others stated not having enough experience to judge if N2 essential or not.	NGOs: Clear and Essential: Disclosure N2 would enable impact enterprises to showcase the material sustainability matters pertaining to their positive impact objectives, which connect to their PAT in place. Standard Setters: Perceived as difficult and complex to put in practice. Accountants: SMEs to provide a “roadmap” of if and when they plan to address material matters for which they are currently not disclosing. Others consider this not feasible for companies.		

Strategic orientation discussion of EFRAG SRB

Topic		Preparers	Users	Other	EFRAG Secretariat Orientation	Conclusion
N3 – Management of material sustainability matters	FIELD TEST	This disclosure was amongst the most challenging for respondents. As with N2, respondents requested standardised templates, and step-by-step guidance to help in completing the disclosure including a predefined list of material matters.	Users indicated that for aggregation and comparability purposes it could be relevant adding guidance on methodology.	N/A	N2 Integrate PAT (N3) into B2.	CCS1
	PUB.CON.	SMEs: All SME associations (European & national) request to delete the disclosure. Majority of individual SMEs in majority consider it feasible but ask simplification and guidance. An additional suggestion was to merge N2 and N3 into one and turn N2 and N3 into Y/N questions.	Banks– Specific: European banking associations and some national ones believe that N3 is not needed (it could partially be merged in B2). Others agree with relevance (individual banks and investors). If kept suggestion by a European banking association to add existing insurance policies that the SME may have in place to mitigate potential physical risks. Large undertakings-Specific: Essential, but with reduced granularity and increased flexibility for SMEs.	NGOs: Essential, however, provide additional guidance. Suggestion to add voluntary disclosure tailored to SMEs already implementing measures to manage their positive, besides potential negative impacts. Standard Setters: <u>More guidance</u> on the value chain. Positive impact should be included. Requires general simplification and guidance. Accountants: some ask SMEs to provide a “roadmap” of if and when plan to address material matters where currently not disclosing. Others state that for medium-sized SMEs this may be feasible, but not smaller companies.		
N4 – Key stakeholders	FT	While N4 was rated as relatively low difficulty, several respondents noted the challenges of obtaining responses from stakeholders when they engage with them via questionnaires.	Considered of low to medium importance by users compared to N5.	N/A	Weak support for N4 and N5. Delete N4 (also in conjunction with elimination of materiality).	CCS1
	PUB.CON.	SMEs: Split views between European and national SME associations. Some ask to delete the disclosure as not feasible; others state that it is feasible for medium. Majority of individual SMEs consider it feasible.	Banks: – Specific: majority state that it’s not necessary. If kept, additional suggestion of a European banking association to add the following point: Oversight in sustainability matters and responsibility for the implementation of sustainability objectives, when applicable. Large undertakings-Specific: half consider essential, half not needed. Those saying that it should not be required state that this is because it would disclose sensitive information.	NGOs: Essential. Standard Setters: Merge N4 into N2. + additional simplifications. Accountants: N/A suggestion to add the creation of a code of conduct specific to stakeholder engagement + suggestion to add frequency of engagement, and distinction between internal and external stakeholders.		

Strategic orientation discussion of EFRAG SRB

Topic		Preparers	Users	Other	EFRAG Secretariat Orientation	Conclusion
<p><i>N5 – Governance: responsibilities in relation to sustainability matters</i></p>	FIELD TEST	<p>This disclosure was low difficulty for most respondents, as the data was from processes that are already in place or are easy to implement. There was a general recommendation to provide definitions as governance concepts are not familiar to SMEs.</p>	<p>Users indicated that this disclosure is useful as it shows what sustainability commitments the undertaking has taken.</p>	N/A	<p>Weak support for N4 and N5. Integrate N5 with N3, i.e. when policies/actions are in place indicate who is responsible.</p>	<p>CCS1</p>
	PUBLIC CONSULTATION	<p>SMEs: national and European SME associations ask to delete the disclosure as most SMEs have no governance structure in place. Majority of individual SMEs perceive the N5 as feasible. General suggestion to simplify the paragraph to require disclosures stating whether the undertaking appointed responsibilities in relation to sustainability matters and adapt the vocabulary for SMEs, mentioning Board, DEO, CFO, ESG director.</p>	<p>Users (Banks + Large Undertakings): perceived as essential but it could be simplified. Bank-specific: majority perceives the disclosure as relevant. A European banking association consider it not necessary. Large undertakings: most perceive the disclosure as essential.</p>	<p>NGOs: Requires additional guidance to specific reporting on roles and responsibilities and management decisions regarding sustainable model (e.g. training, incentives). Standard Setters: Minimise references to other standard like SFDR and include more concrete guidance. Additional proposal to modify the disclosure to: “The undertaking shall describe whether it has established a governance structure or appoints responsible individual(s) (e.g. CEO, CFO, ESG office, Board) for overseeing sustainability matter, and if so, provide a brief description. If applicable this description shall cover roles and responsibilities of the highest governance body or of the responsible individual(s) and may include remuneration policies related to the achievement of sustainability objectives.” Accountants: Provide clear guidance + make it optional as SMEs may not have formalised governance bodies.</p>		

Business partners module

Topic		Preparers	Users	Other	EFRAG Secretariat Orientation	Conclusion
<p><i>General Comments</i> - Introduction to provide overview – no action required</p>	FT	Language perceived to be more complex than BM.	N/A	N/A	<p>Secretariat position: the entirety of the BPM should be based on the “if applicable” approach. This mean that no omission would be possible based on materiality for the following DRs where “if applicable” is not feasible: BP 5,7, 8, 9, 10. Please note that BP 7-8-9 are process based and will be streamlined (see above). For BP5 (exposure to physical risk) EFRAG SR TEG will discuss whether it is possible to narrow down the application when significant.</p>	CCS 12
	PUB. C CONS.	<p>SMEs: most support the module. Additional guidance and tools are needed. Criticism that Materiality analysis is required for the BPM. External links are no available in all EU languages and are too complex to read.</p>	<p>Banks A majority supports the module. Some banking associations ask to <u>delete materiality in BPM</u> and replace it with “if applicable”. They consider BP1, BP3, BP4, BP5 essential. Split views on others. BP11 not necessary for 4 European banking associations. A European banking association suggests that the whole BPM only applies for medium.</p>	<p>NGOs: Overall majority support for the module. However, those who suggested to restructure the standard in 2 modules found this current module not to be proportional. Some state that BPM disclosures do not cover all relevant metrics that SMEs may be asked. Standard Setters: majority support the module.</p>		