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## Executive Summary for Comment Letters Only VSME ED Public Consultation

***This report offers only a partial view of the overall feedback. For a complete view the findings in this report (feedback from comment letters only) needs to be read in conjunction with the findings of the online survey.***

### About this report

1. EFRAG has conducted a public consultation on the Exposure Draft for a voluntary sustainability reporting standard for non-listed SMEs (including micro undertakings) (**VSME ED**) to gather view from stakeholders. Beside the feedback received via the online consultation questionnaire, EFRAG has received comment letters from several stakeholders.
2. EFRAG Secretariat has received 22 Comment Letters outside the online survey (2 of which were not published for confidentiality purposes). The result of the analysis of those letters have been summarised in this Detailed Report. Please note that 19 of the 20 comment letters refer to associations, standard setters or authorities and not to individual stakeholders. As such their weight has been considered when describing the trends in the overall conclusions.
3. This report is organised by stakeholders' group as follows: "preparers" (business associations representing SMEs), "user" (a rating agency) and "others" (associations of accountants, standard setters, academic and authorities).

### About the VSME ED public consultation

4. The public consultation was launched on 22 January 2024 and was conducted in parallel with the field test (with different deadline for submissions). Field test participants have also replied to the online questionnaire- based survey.

### Executive Summary of feedback received outside online survey, via comment letters

5. From the analysis of the comment letters received outside the online questionnaire, the following key messages emerged.
6. **General feedback on VSME ED 's objective** and its role to replace business questionnaires: the business associations representing **preparers** indicated their support for VSME as a tool to make reporting manageable and replace business partners questionnaire, but further simplification is generally needed. Suggestions included: i) language simplifications, ii) online reporting template

(platform) to facilitate the exchange of info and make the standard more interactive; iii) add examples; iv) avoid references to external links (i.e. the WRI's Aqueduct Water Risk Atlas or the GHG protocol) or make sure that translation in all EU language is available; v) education support to implement VSME needed. Another suggestion was to add in the objectives that another "business counterpart" of VSME are public authorities (i.e. sustainability information for public tenders). The **user** (rating agency) was supportive of VSME as reporting tool and to replace business partners questionnaires to an extent but considered that business partners would still require 3rd parties to engage with SMEs, including through questionnaires, to: i) analyse the data based on their specific needs or ii) provide an opinion on the level of performance disclosed by SMEs. **Standard Setters** and **Accountants** associations generally supported the role of VSME as a simple reporting tool, one standard setter mentioned the replacement of business partners questionnaire may be relatively low. **Authorities**: generally supported VSME as it will allow SMEs to benefit from a standardized and simple reporting framework.

7. On the **Architecture and modular approach**: business associations preparers expressed preferences for Basic Module; one business association expressly asked to stick to Basic Module only and proposed it being composed of 12 metrics (see agenda paper 05-05 – Detailed feedback from comment letters (outside online Survey)). Another indicated that SFDR datapoints shall not be included in Business Partner Module. Another asked to clarify in case of omittance because “not applicable” how CSRD companies will be able to deal with it. **User** rating agency agrees that the module combinations are adequate to accommodate the different needs. **Standard setters** support the modular approach and the flexibility. One standard setter asked for SMEs to provide information when they choose to change the adopted modules. **Accountant** associations overall supported the modular approach but two of them highlighted that the Basic Module alone would not be sufficient to cover information requests and a combination of Basic + BP Module would be necessary. **Academic**: support the modular approach, but VSME is too detailed. **Authorities** also support a modular approach. Some underline the importance to develop open access tool to facilitate reporting. There was one suggestion to split Business Partners Module in sub-modules according to the type of counterparts needs (bank, investor, supply chain/larger/smaller). Another suggested that some datapoints could be deleted while others shall be added.
8. **Materiality**: business associations **preparers** indicate that materiality remains difficult. There are suggestions to remove or provide more sector guidance. One suggests replacing it with a “comply or explain” approach to ease reporting burdens. There is **no comment from the user** rating agency on this. **Standard setters** indicated that the materiality analysis is difficult but could be kept as risk management tool for SMEs and because it only applies to PAT module, i.e. undertaking who already have PAT in place. They requested simplification and adapted guidance. **Accountant** associations deem that simplified guidance should be provided for materiality analysis being highly difficult for SMEs to understand (flow chart type) and suggest adding positive impacts. One suggests removing materiality analysis and replace it with the “if applicable approach”. **Academic**: no specific views

on materiality but agreement with the “if applicable approach” to replace materiality in the Basic Module. **Authorities** see the materiality as complicated. Recommendations: i) replace with interactive online tool based on Appendix B, ii) SMEs to provide brief explanations for their sustainability topic selections based on their activities and context, ii) list of sustainability matters by sector.

9. **Consolidated reporting and subsidiary exemption**, only **preparers** commented by supporting it, some indicate that due to voluntary reporting, it would be up to the companies to decide on consolidated report or gradually include subsidiaries.
10. **Timing and location**: one business association **preparer** asks to broaden reference to “other documents” also to mandatory public controls of the sustainability objectives (e.g. the verification by inspectors or public auditors of the democratic or worker/users-participated governance)”. One **authority** suggests ensuring that the sustainability report shall be prepared on annual basis (alignment with Pillar 3 framework).
11. **Sector-specific dimension**: business association **preparers** support sector specific guidelines designed for non-listed SMEs. This is also supported by the **user** rating agency. One **standard setter** suggested that if and when EFRAG develops a sectorial ESRS adapted to SME, reference to sector in the VSME ESRS (i.e. B6, B7, BP1, BP3 among others) may need to be deleted. **Accountants** support sectors guidelines to apply both listed and non-listed SMEs, one emphasises the need to develop an implementation guidance outlining material sustainability issues per sector. **Authorities** suggest increasing the focus on sectors and provide guidance on this basis: in particular, simplify the materiality analysis by drawing up a brief guide to clarify the main material issues by sectors and by specifying how to conduct a simplified materiality assessment for SMEs.
12. **Value chain cap**: business associations **preparers** indicate that VSME should serve as “value chain cap” to ensure maximum amount of VSME data that reporting entities can request. The **user** rating agency supports the value chain approach adopted by EFRAG; undue effect is not expected from ESRS reporting. **Standard setters** have split views. One standard setter agrees with LSME being the value chain cap, the other suggest VSME to be the value chain cap. **Accountant** highlighted that VSME should be the Value Chain Cap and called for greater alignment between ESRS LSME and VSME. **Academic** had no comments. **One authority** suggests that VSME could be better placed than LSME ESRS for the “cap in the value chain” role.
13. **EU Taxonomy**: one **preparer** suggests that VSME should not include additional data points to cover EU Taxonomy disclosures as the simplified methodology is work in progress. One **authority** suggests adding a “taxonomy module” in BP Module, based on Sustainable Finance Platform streamlined approach.
14. On the **Basic Module**: business associations **preparers** request to further simplify disclosures to ensure SMEs are able to independently disclose BM datapoints without needing external ESG experts. Additionally, there is a request by preparers to avoid using external references to EMAS, international legislation/ standards and EU law as SMEs are no familiar with these technicalities.

There was a general request by some preparers to delete B11 given its complexity. One preparer requested to delete B12. For B2 there were specific requests to add datapoint relevant for cooperative enterprises specific requests. With regard to specific disclosures, specific changes were requested for disclosures B3, B9, B10; these are available in the agenda paper 05-05 – Detailed feedback from comment letters (outside online Survey). The **user** (rating agency) suggested to provide an overview of the disclosures in VSME reported “if applicable”. To facilitate SMEs. In addition, the user analysed the disclosures that it is already covering through its own rating questionnaires. The disclosures that are partially or not currently covered in this questionnaire are: B4 (partially), B5, B6 (partially), B7 (partially), B8 (partially), B10 – B12 (partially). B3 and B9 are entirely covered. **Standard setters** asked to clarify the “if applicable” approach to be better understood in the various disclosures. Additionally, they suggested to move BP6 (BPM) into B7 (BM). For B11 Standard Setters suggested to add positive aspect as well. The more specific suggestions provided for the other disclosures can be found in the agenda paper 05-05 – Detailed feedback from comment letters (outside online Survey). **Accountants** suggested to delete B11. Additionally requests to align ESRS S1 definition to B8, B9, and B10, expanding the VSME definition of own workforce. For other disclosures, accountants request for more simplifications and examples on top of specific requests that can be found in the agenda paper 05-05 – Detailed feedback from comment letters (outside online Survey). **Academics** expressed no comments on the module. **Authorities** requested for simplified guidance for B3, B5 and B6. Specific requests on disclosure can be found in the agenda paper 05-05 – Detailed feedback from comment letters (outside online Survey).

15. On the **Narrative-PAT Module: Preparers**: business associations **preparers** considered this module as too sophisticated/ complex for micro and small SMEs; only medium sized SMEs were considered to be capable of reporting this. Some preparers asked to remove this module from VSME due to complexity. For N1 one preparer suggested specific changes for cooperatives. For N4, phrasing suggestions were provided. For N5, there was a suggestion to omit governance-based questions as SMEs generally, do not have governance bodies. Instead, descriptive/ qualitative questions should be asked. The **User** (rating agency) indicated that all disclosures are partially covered by the rating agency’s questionnaire. **Standard setters** asked to clarify the “if applicable’ approach. **Accountants** requested for the simplification of vocabulary. On N2 one accountant asked to delete financial materiality (too complex for SMEs). Some accountants also asked to move N4 – key stakeholder information to N2. **Academics** left no comments. **Authorities**: an authority suggests transforming this module into a Y/N close-ended question module. One authority supports the PAT but suggests some modifications as in agenda paper 05-05 – Detailed feedback from comment letters (outside online Survey).
16. On the **Business Partners Module**: business associators **preparers** indicate relatively low support as they consider it too difficult without external support. With regard to BP1, BP8, and BP9 there is a suggestion to avoid referencing external sources. Data requests for BP1 – BP5 and BP7 – BP10

were perceived as not fit/ adapted for SMEs. Some respondents view BP3's scope 3 data point as too complex. Some suggest the need to provide an "EU GHG calculator" for scope 3 approximations that SMEs can use. For BP4, BP8 and BP9 there is an emphasis in omitting external references within the standard. On the user (rating agency) side, BP2, BP3, BP6 and BP9 are fully covered disclosures. BP4 and BP8 are partially covered. BP1, BP5, BP7, BP10 and BP11 are not covered; for the Narrative PAT Module, N1 to N5 are partially covered, one difference is that their questionnaire includes predefined list of actions on sustainability matters tailored for size/sector. **Standard setters** asked for generally specific changes visible in the agenda paper 05-05 – Detailed feedback from comment letters (outside online Survey). **Accountants** found BP7, 8, & 9 to be too much of a burden for SMEs. Additionally, accountants found BP10 and BP11 irrelevant; one suggested to delete BP10. The suggestion to merge BP3 and BP4 into one disclosure was also brought forth. Other specific changes can be consulted in the agenda paper 05-05 – Detailed feedback from comment letters (outside online Survey). **Authorities** suggested to provide specific cross-referencing to all relevant EU legislations (Pillar 3 ITS templates, SFDR datapoints, and EU Taxonomy Regulation KPIs) to facilitate the access of information for all market participants. The importance of the datapoints of this module was also underlined. SFP recommended to keep BP7, BP8 and BP9 within the Business Partner Module as the DRs encompass the provisions outlined in Art.18 of the Taxonomy Regulation which mandates undertakings to incorporate SMEs in their human rights due diligence processes when engaging in business with them.