

EFRAG Public Consultation – January 2024 - Questionnaire VSME Exposure Draft

1. DISCLAIMER

This questionnaire supports the development of the Exposure Draft for a Voluntary Standard for non-listed SMEs ('VSME ED'). The purpose of this consultation is to collect feedback from a variety of stakeholders on the content of its content.

The VSME ED is the result of EFRAG SRB and SR TEG and includes inputs from EFRAG Expert Working Group and the EFRAG VSME community as well as stakeholders outreach events. This work benefits from the research conducted by the SME working group "Cluster 8" of the EFRAG Project Task Force on European sustainability reporting standards.

The following background documents are included in the package to help respondents framing their responses:

Annex 1: VSME ED [link](#)

Annex 2: Basis for conclusions for VSME illustrating the reasoning behind the content of the ED [link](#)

Annex 3: Approach to Value Chain Cap in ESRS LSME ED and VSME ED [link](#)

Deadline for answer is 21 May 2024 (EoD)

2. SURVEY INTRODUCTION

Thank you for taking the time to complete this survey.

The purpose of this survey is to receive feedback from constituents on the VSME ED. The feedback will be collated by EFRAG Secretariat and analysed by EFRAG SR TEG and SRB to finalise the VSME draft for delivery to the European Commission ('EC').

Why VSME? EFRAG's work on a voluntary standard for non-listed micro, small and medium enterprises is outside the Corporate Sustainability Reporting Directive (CSRD).

As specified in the EC Q&A accompanying the adoption of the Delegated Acts ESRS in July 2023, EFRAG is developing simpler, a voluntary standard for use by non-listed SMEs to enable non-listed SMEs to respond to requests for sustainability information in an efficient and proportionate manner as well as to facilitate their participation in the transition to a sustainable economy. The EC SME Relief Package of September 2023 refers to the VSME ED as a measure to support SMEs in accessing sustainable finance and to reduce the reporting obligations by 25%.

The VSME ED will allow non-listed SMEs (including micro) to face growing requests for ESG data and to lower the entry barrier to reporting. Undertakings with no company statute (self-employed) are expected to use this VSME. The benefits of VSME will depend on market acceptance and recognition that the VSME ED is suitable to replace a substantial part of the various questionnaires (from lenders, corporates, investors) currently used to collect such information from SMEs.

Micro, small and medium undertakings are in number the vast majority of enterprises in Europe.

General approach to users' needs: When answering to the questions in this Survey and assessing the appropriateness of the proposed disclosures, respondents are invited to consider the perspective of the users' needs of this particular ED (users being primarily SMEs' business partners, i.e. lenders, other investors, corporates) and to take into account the capacities of the SMEs, especially as they are not in the scope of the CSRD. Such information is also expected to support the perspective of public interest.

In this questionnaire, if not differently specified, the terms "SMEs" and "undertaking(s)" refers to non-listed micro, small and medium undertakings in the scope of VSME ED.

If you have no opinion on a question you can skip the question.

3. INFORMATION ON SURVEY PARTICIPANT

First Name:

Sara

Last Name:

Lissdaniels

Email

sara.lissdaniels@far.se

Organization:**Name of organization:**

FAR AB

Type of organization:

Preparers are identified as those which choose to prepare a sustainability report under the VSME ED.

Users are identified as those using the sustainability information produced by applying VSME ED (in particular those are investors, lenders, large undertakings as SME's value chain partners).

Other

Please specify whether you are:

Other (please specify)

“Other” respondents can choose to respond either as as Preparers (proxy) or as Users (proxy). In this case, in addition they can provide complementary comments to cover the other perspective, using the last open question in Part 2 of the questionnaire.

Please specify:

Professional Accountancy Organization

Main country of operations:

Sweden

Main sector of operations:

Services

Depending on the group you have selected, you will be asked different questions.

4. Survey structure and instructions

This survey is structured as follows:

A) Part 1: VSME ED – General key questions (CRITICAL, please consider answering all questions) (If you only wish to complete Part 3, please page through the questionnaire to there)

B) Part 2: VSME ED – Detailed questions on principles and datapoints in the 3 modules (ADDITIONAL, please complement your answers in part 1 by answering part 2 as much as possible) (If you do not wish to complete this part, please page through to Part 3 on the Value chain cap or the submission page as relevant)

C) Part 3: Value chain cap (Separate section on the role of VSME and LSME in respect to the trickle-down effect)value chain cap as determined by the ESRS LSME) (Please note that here you are requested to choose whether you want to respond in brief on this topic or in a more detail. Please note that the questions on the value chain cap here are the same as in the LSME questionnaire in part A2 and if you respond to both questionnaires, you do not need to repeat your answers.)

You can choose to answer any part on its own or combination with the other parts.

Survey instructions

Some questions in the survey will appear depending on your previous answers or choices. You will now be able to save your responses before final submission . Please note that EFRAG only considers completed surveys - partial submissions cannot be technically processed. You will receive an email with your response on submission.

5. A) Part 1: General key questions

A) PART 1: General Key Questions (CRITICAL)

a. Objective, simplifications and modules

Please refer to the text of VSME ED in [Annex 1](#) and to the text of Basis for conclusions for VSME ED in [Annex 2](#).

1. The objective of this ED is to provide a simple reporting tool, that can credibly replace a substantial part of the questionnaires used by business partners (lenders, investors and corporate clients) in requesting ESG data from SMEs and that can support SMEs in monitoring their sustainability performance. While the ED has been built mainly on the basis of questionnaires from business partners, the resulting information is expected to also benefit SMEs by improving their management of sustainability issues and, in this way, contribute to a more sustainable and inclusive economy.

Do you agree with this standard setting objective?

Yes

Please explain your answer:

FAR agrees with the objective to provide a simple reporting tool to help SMEs deal both with their sustainable transition and as a means by which supply chain demands for sustainability information and data could be mitigated. To achieve this objective, effort will be required, both on European and national level, to inform SMEs of the existence of the VSME standard and the benefits of sustainability reporting according to it. Further, since not being legally binding, it is crucial the VSME standard gains broad acceptance by stakeholders as the means for requesting sustainability information from SMEs in the value chain. In our opinion, the VSME has the potential to be the standard that the LSME should be – particularly in terms of it being the 'value cap' for disclosure requests under the CSRD.

FAR appreciates Efrags achievements on aligning the VSME standard to the extent possible with the ESRS standards. This provides SMEs with the possibility to build experience of ESRS reporting which facilitates for those companies that are in a growth phase or intend to be listed on a regulated market. Efrag might contribute to the acceptance and facilitate for large entities requesting information from SMEs by providing a mapping table or similar guidance, between the SME standard and ESRS enabling them to understand what information in the ESRSs is being provided via the SME standard.

2. VSME ED has been structured in three separate modules:

The Basic Module is the entry level for SMEs and the target for micro-SME; it is required also in case of use of one of the two other modules.

The Narrative-Policies, Actions and Targets (PAT) Module is expected to be used by SMEs that have already in place some formalised policies, actions and targets.

The Business Partners (BP) Module is expected to be used when an SME faces data requests from its business counterparties.

The following alternatives for reporting uses are possible under the VSME ED:

- 1) The Basic Module alone;**
- 2) The Basic Module with the Narrative-PAT Module;**
- 3) The Basic Module with the Business Partners (BP) Module;**
- 4) All three Modules together.**

Do you agree that these alternatives are appropriate to deal with the diversified undertakings in scope (both number of employees and economic sectors) in the context of the objective as stated in Q1 of this questionnaire?

Yes

Please explain your answer:

We support the proposed modular framework in the VSME. In addition to the four alternatives listed we find an option in paragraph 19 to adopt a 'Basic +' module. This option suggests that the Basic Module disclosures B3 to B12 could be augmented with metrics from the Narrative-PAT and Business Partners Modules to provide 'more comprehensive information'. This option could be preferred by SMEs with limited capacity to carry out a double materiality assessment but with stakeholders requesting certain information in modules 2 and 3. Consequently we suggest paragraph 21 to also include a requirement of disclosure of which metrics are disclosures voluntarily or which metrics from the N-PAT and/or BP modules are being used if the modules are not applied in their entirety.

3. The Basic Module is written in simplified language to make it easily understandable for micro and SME undertakings, while ensuring clarity in terms defined by the ESRS with 12 disclosures to be reported. There is no need for a materiality analysis. Certain disclosures are required only if the undertaking considers them "applicable".

Do you agree that the Basic Module is proportionate, understandable (in terms of language), and has a reasonably complete set of disclosures to be used as a starting point?

Yes

Please explain your answer:

FAR believes that the Basic Module is proportionate for the size and complexity of micro SMEs and has a reasonably complete set of disclosures so that SMEs can address the main general sustainability issues with which they may be faced.

The language is simple, but the standard should describe the term "if applicable" since it might be understood as what SMEs considers to be "relevant". An example could be if disclosure B-6 on water withdrawal is applicable if a SME has some water withdrawal from the public water supply network, but only referring to drinking water for employees etc. The guidance could also include illustrative examples of how what may be "applicable" in a manufacturing company versus a service company.

Given the intent is that SMEs, including micro-entities, should be able to apply the standard themselves without necessarily having to engage professional advisors, the guidance could also include more illustrative examples of more technical and complex terms and topics, as biodiversity. The guidance should include more examples on how and where data could be found and collected, and how metrics could be calculated. The examples in the application guidance regarding to the scope 1 and 2 greenhouse gas emissions has some information gaps and need further elaboration and detail to be understandable.

If answer is NO, please indicate the relevant disclosure.

4. The Narrative-Policies, Actions and Targets (PAT) Module is suggested in addition to disclosures in the Basic Module, to undertakings that have formalised and implemented PAT. Materiality analysis is required to determine and disclose the sustainability matters that which sustainability matters are relevant for the undertaking.

Do you agree with the content of and approach to the Narrative-PAT Module, which is reserved to undertakings that have Policies, Actions and Targets (PAT) in place?

Yes

Please explain your answer:

FAR agrees with the content and approach of the Narrative-PAT module and the flexibility offered by only reporting those PATs that the entity has in place. However, the standard lacks guidance for the N-PAT module. Consequently, EFRAG should consider including the useful clarifications contained in LSME Appendix A, AR 3. to the N-PAT section of the VSME unless EFRAG consider that there should be a different approach to including policies and targets between the LSME and VSME.

5. The Business Partners (BP) Module sets datapoints to be reported in addition to disclosures in the Basic Module, which are likely to be included in data requests from lenders, investors and corporate clients of the undertaking. Materiality analysis is required, in order to determine and disclose the sustainability matters that are relevant for the undertaking.

Do you agree with the content and approach to the Business Partners (BP) Module as a replacement and standardisation of information requests by business partners, being a proportionate but complete set of ESG disclosures?

Yes

Please explain your answer:

FAR supports the concept of the BP module and see the necessity to standardise as far as possible the sustainability information requests that SMEs receive from providers of finance and their supply chain. It could however be valuable if EFRAG were to build an element of sector specificity into the BP module, which could be more useful than some of the metrics already included – particularly if it is possible to get a level of agreement from the supply chain that the metrics are important, thereby reducing the possibility of divergent information requests.

Efrag should consider how to facilitate for SMEs to conduct the double materiality analysis by adding guidance including examples of a simplified methodology.

6. QUESTIONS

A) PART 1: General Key Questions (CRITICAL)

b. Sector guidance

6. Sustainability matters may be highly dependent on the specificities of the relevant sector(s) that the reporting undertaking operates in. Please select your recommended course of action for standard setting and guidance purposes on this matter.

Please note that your answer will be complemented by question 13 on the additional dimension of reporting including sectors.

Please select one:

Undertakings applying VSME ED should apply on a voluntary basis sector specific guidelines and disclosures applicable to both listed and non-listed SMEs, to be issued by EFRAG as a non-authoritative annex to the future sector-ESRS.

Please provide your comments, if any:

Undertakings applying VSME ED should apply on a voluntary basis sector specific guidelines and disclosures applicable to both listed and non-listed SMEs, to be issued by EFRAG as a non- authoritative annex to the future sector-ESRS.

Listed SMEs are often structurally and operationally similar to other SMEs at it is our opinion that that there should be a high level of commonality. Sector considerations for large entities may diverge and the standards may be too complex for SMEs to use as why we suggest specific sector guidance for SMEs.

In terms of SMEs and sector specific metrics we believe that the transport sector may be a relevant priority, as this sector cover many SMEs and have a high impact on climate (high GHG emissions).

7. B) Part 2: Detailed questions on principles and datapoints

B) PART 2: Detailed questions on principles and datapoints (ADDITIONAL, to complement part 1)

a. Principles for preparation

Please refer to the text of VSME ED in [Annex 1](#).

7. Do you agree with the proposed Principles for the preparation of the sustainability report in VSME ED?

Principles for the preparation of the sustainability report (Basic Module, Narrative-PAT Module, Business Partners Module)

	Please select:		Comment
	Agree	Disagree	
a) Complying with this Standard (paragraphs 9 and 10 in VSME ED)	X		
b) Preparation on a consolidated basis (paragraph 12 in VSME ED)	X		
c) Timing and location of the Sustainability Report (paragraphs 13, 14 and 15 in VSME ED)	X		Generally, FAR supports disclosure of sustainability information in the management report and at the same time as the financial statements but we propose that the wording on location and timing to be revised to be less prescriptive. In some jurisdictions, as in Sweden, information included in the management report must be subject to reasonable assurance (when the company has a statutory auditor). This could result in sustainability information requiring external assurance causing undue cost for SMEs and disincentivise SMEs from voluntarily reporting using the VSME. Also, prescribing the sustainability report to be issued at the same time as the financial reporting could be to the detriment of reporting quality since SMEs due to time and resource constraints may have to prioritise the legal reporting requirements.
d) Classified and sensitive information, and information on intellectual property, know-how or results of innovation (paragraph 16 in VSME ED)	X		We note that there is more flexibility in the VSME compared to the LSME as to what could be considered to be classified or commercially sensitive information. We agree with the added flexibility but, where information is omitted on these grounds, we believe that it is essential that the SME discloses this fact. Paragraph 16 could be amended emphasizing the importance of being transparent about information omitted.

If you disagree please explain your reasoning:

Please select a principle:

Explanation:

8. Additional question on Preparation on a consolidated basis. The VSME ED recommends the undertakings that are parent of small and medium sized groups to prepare consolidated reports for their sustainability statement, i.e. to include data of their subsidiary/ies in the report.

Do you agree with this approach?

Yes

Please explain your answer:

FAR fully supports the preparation of sustainability reports on a consolidated basis, both to reduce the administrative burden on SME groups of preparing multiple reports and also to provide more meaningful information to the group's stakeholders.

FAR suggest a similar approach should be includes for the LSME standard.

9. Since non listed SMEs are outside the scope of CSRD, the subsidiary exemption (see CSRD Art. 19a9) does not apply to them. One proposal that EFRAG could consider is to include such exemption in VSME ED, as a further incentive to apply consolidated sustainability reporting.

Would you consider the inclusion of a subsidiary exemption to VSME ED as pertinent and feasible?

No

Please explain your answer:

On the basis that SME's that wish to use the VSME are doing so on an entirely voluntary basis, we see no need for the VSME to specify a subsidiary exemption where no legislative requirement exists.

Where such an exemption would not only be useful but vital is in the LSME where the absence of such an exemption causes major issues for its usefulness and ultimately, we believe, its adoption.

In our opinion, the VSME has the potential to be the standard that the LSME should be – particularly in terms of it being the 'value cap' for disclosure requests under the CSRD.

10. Additional information component including sectors (VSME ED par. 11, applicable to all the modules) Depending on the type of activities carried out, the inclusion of additional information about issues that are common to the undertaking's sector supports the provision of relevant, faithful, comparable, understandable and verifiable information. While acknowledging the difficulties that this requirement may raise for SMEs, the inclusion of this additional dimension was considered an important element of VSME ED to fulfil in particular-sector specific disclosures.

Do you agree with this approach?

No

Please explain your answer:

Whilst we agree that all entities should be encouraged to disclose any relevant, faithful, comparable, understandable, and verifiable additional information that supports user's understanding of the sustainable transition of the entity, paragraph 11 specifically mentions the undertaking's sector.

As mentioned above, sectoral information is a particular concern for SMEs. Those SMEs that have yet to receive information requests for sector specific information will struggle to identify what additional sector specific information they should publish. As mentioned in our response to Question 5, it would be very useful if EFRAG could build sector specific disclosures into the BP module

8. QUESTIONS

B) PART 2: Detailed questions on principles and datapoints (ADDITIONAL, to complement part 1)

b. Basic Module

11. The Basic Module is the entry level for non-listed SMEs and has a highly simplified language. Ideally the undertaking should be able to produce these disclosures with limited help of consultants. It comprises 12 disclosures which have been mapped with existing voluntary initiatives (i.e. Nordic Sustainability reporting standards for SMEs, German Sustainability Code, CDP guide for SMEs etc.). These disclosures have been identified as recurring in the questionnaires analysed by the EFRAG Secretariat (please refer to *Annex 2 Basis for conclusions for VSME ED* for more details).

With reference to the proposed disclosure requirements, please include your answer in table below:

	Do you have comments on the inclusion and content of this disclosure?
Disclosure B 1 – Basis for Preparation	
Disclosure B 2	

Disclosure B 2 – Practices for transitioning towards a more sustainable economy	This disclosure could allow for the company to provide a description, if applicable, of their analysis of material IROs. Even if the company may not have performed a complete DMA, they may have performed a simplified analysis motivating their choice of reporting option.
B 3 – Energy and greenhouse gas emissions	The guidance to B-3 should be amended in accordance with our response to Q.3. Using the 'controlled source' criteria will also be difficult for SMEs to understand, and even if understood, it may be difficult for SMEs to provide information on Scope 1 emissions from controlled sources. Unclear guidelines risk leading to incorrectly reported emissions data and a lack of comparability. We believe that there is a need for guidance on tools for carbon-calculation etc. which are considered sufficiently accurate, and which are accepted by stakeholders.
B 4 – Pollution of air, water and soil	
B 5 – Biodiversity	This metric requires a lot of background research, with terminology and concepts that will probably be unknown to a large proportion of the potential user base for the VSME. EFRAG should consider whether the language used in this metric could be simplified and better defined.
B 6 – Water	
B 7 – Resource use, circular economy, and waste management	
B 8 – Workforce – General characteristics	B 8-10 This metric refers only to 'employees' and many SMEs will use self-employed or agency workers for a similar role with a similar level of control. We believe that this metric could be extended to cover such work-force disclosed as a separate line as with ESRS S1. This also applies to the point under B 9 and B 10.c
B 9 – Workforce - Health and Safety	
B 10 – Workforce – Remuneration, collective bargaining, and training	SMEs typically have a small number of employees causing concern for this metric to the publication of personal information. This data protection concern could also impact disclosures under B-8 and B-9.
B 11 – Workers in the value chain, affected communities, consumers and end-users	
B 12 – Convictions and fines for corruption and bribery	

1 - This datapoint was not identified in any of the questionnaires analysed by EFRAG Secretariat but was inserted to keep consensus based on the recommendation by some EFRAG SRB members.

12. B3 to B7 require disclosure of environmental performance metrics. There are other schemes used by SMEs requiring reporting of similar metrics, such as the European Eco-Management and Audit Scheme (EMAS – Regulation

(EC) No. 1221/2009).

Do you see any potential for better alignment with those other reporting schemes?

No

Please explain your answer:

We have no specific information on this question.

13. The guidance provided for B9 on the number of fatalities as a result of work-related injuries and work-related ill health refers to incidents arising during travel and, outside of the undertaking's responsibility (e.g. regular commuting to and from work). These incidents are subject to the applicable national legislation that regulates their categorisation as to whether these are work-related or not.

Is the practice in your country to include such incidents as work-related fatalities?

No

Please explain your answer including references to the relevant legislation.

We have no specific information on this question.

14. B10 (a) requires undertakings to disclose the relevant ratio of the entry level wage to the minimum wage, when a significant proportion of employees are compensated based on wages subject to minimum wage rules. This datapoint deviates from the disclosure requirement on adequate wages established in ESRS S1-10 – Adequate wages (from paragraphs 67 to 71) as a simplification (i.e., easier to collect).

Do you consider that this requirement will provide relevant and comparable information?

Yes

Please explain your answer:

We have no specific information on this question.

15. B11 was drafted to cover, in a simplified way, a description of the process to identify material impacts and a description of those for workers in the value chain, affected communities and consumers/end-users. This disclosure is an exception to the general approach in the Basic Module where materiality does not apply. As a compromise, it was included as a voluntary disclosure.

Do you agree with this approach?

Yes

Please explain your answer:

We agree that there is a need for SMEs to consider (and disclose if applicable) value chain risks and management. However, we note that the term 'materiality' is not currently used in (draft) B 11 and there is no additional guidance for this metric. We do not consider it necessary to refer to materiality in B-11 and consider that the term 'severe negative impacts' will be adequately clear for most potential preparers and users. The disclosure should be disclosed if applicable. If a company has processes in place, it should be of no concern to them to disclose information on this. Guidance on how to assess risks and impacts on affected parties and what sort of processes SMEs could adopt would be useful.

16. In order to help SMEs prepare the sustainability report, specific guidance has been developed for the Basic Module in paragraphs 87 to 167 of the VSME ED.

Do you think that it is useful for the preparation of the report? Do you think it is sufficient?

Yes

Please explain your answer or add suggestions:

It is important to give basic information on how to calculate and present sustainability data to companies that are not used to handle this type of data or to disclose it in public reports. The guidance increases the opportunity to gain transparent and comparable data. As mentioned we encourage Efrag to include more guidance in form of practical examples

9. QUESTIONS

B) PART 2: Detailed questions on principles and datapoints (ADDITIONAL, to complement part 1)

c. Approach to materiality of matters and Principles for preparation (common to Narrative-PAT and Business Partners Modules)

17. Do you think that the language and approach to the Principles of Materiality to be applied to the Narrative-PAT Module and Business Partners (BP) Module are proportionate for the undertakings in scope? Please include your feedback in the table below:

	Please select:		Comment
	Agree	Disagree	
Impact materiality (paragraphs 46-50 in VSME ED)	X		We consider that, as is the case with the (draft) LSME, it should be an option to report on positive impacts and not just opportunities. A paragraph could be added to this section to make this clear.
Financial materiality (paragraphs 51-55 in VSME ED)	X		
Stakeholders and their relevance to the materiality analysis process (paragraphs 56 and 57 in VSME ED)	X		We believe there is a need for added guidance to the N-PAT module including example of a simplified process to perform a DMA.

18. The VSME ED requires performing a materiality analysis in order to disclose which of the sustainability matters listed in Annex B of VSME ED (which is the same as AR 16 of ESRS 1 General requirements) are material to the undertaking. Therefore, users will understand for which material matters the undertaking does not have Policies Actions and Targets (PAT) in place. This approach (like for ESRS Set 1) is designed to have a reliable depiction of what the undertaking is doing to address sustainability matters, avoiding greenwashing. At the same time, this approach only requires reporting the PAT (Policies, Actions and Targets) that the undertaking has in place. No information is required when they have no PAT in place for a material matter (in addition to the list of material matters itself).

In the VSME ED, the Narrative-PAT and Business Partners Modules require assessing the materiality of the matters, as it considers the disclosure of only material matters as essential information for users. Do you agree with this approach?

Yes

Please explain your answer.

We agree with the approach of requiring an assessment of material matters for the Narrative-PAT and BP modules.

19. As a way to simplify the materiality approach, whenever possible the notion of “report only if applicable” has been introduced. This filters information to be reported by undertakings on the basis of relevance. No disclosure is expected for a specific datapoint, when the undertaking’s circumstances are different from those that would trigger disclosure of that specific datapoint, as described by the relevant provision in VSME ED. This is particularly important for the Basic Module, where no materiality analysis is foreseen and all the disclosures are to be reported, if applicable.

Disclosures in the Business Partners module are to be reported if they are applicable and for BP 5,7, 8, 9, 10 (for which the "if applicable" approach would not work) if they are relevant to the undertaking's business and organisation.

Do you agree with this approach?

Yes

Please explain your answer:

We agree with the "report only if applicable" approach in the Basic Module as a useful simplification but suggest that EFRAG should review the Basic Modules disclosures to see if any further clarification of what is 'applicable' is required for certain metrics, according to our answer in Q3.

We would also argue that in the N-PAT and BP modules if a matter is material it is always applicable but if a matter is applicable it need not be material.

20. Financial opportunities have been included only on an optional basis in VSME ED since the CSRD focused on negative impact when addressing SMEs.

Do you agree?

Yes, reporting for financial opportunities should be optional

Please explain your answer:

We agree that reporting on financial opportunities should be optional as it would encourage the use of SME standard and respond to stakeholder needs, such as potential future employees. The disclosure for opportunities needs to meet the criteria of relevance in p. 10 in the standard on the same term as disclosures for risks.

21. Do you agree with the proposed principles for the preparation of the sustainability report for the Narrative-PAT and Business Partners Module in VSME ED?

Principles for the preparation of the sustainability report (Narrative-PAT Module, Business Partners Module)

	Please select:		If you disagree please explain your reasoning:
	Agree	Disagree	
a) Time horizons (paragraph 40 in VSME ED)	X		
b) Coherence and linkages with disclosures in financial statements ((paragraph 41 in VSME ED)	X		

Please add your comments, if any:

10. QUESTIONS

B) PART 2: Detailed questions on principles and datapoints (ADDITIONAL, to complement part 1)

d. Narrative-Policies, Actions and Targets (PAT) Module

22. Do you agree with the content of the disclosures required by the Narrative-PAT Module of VSME ED? Please refer to Annex 2 Basis for conclusions for VSME ED for further detail. Please include your feedback in the table below:

	Do you have comments on this disclosure?
Disclosure N 1 – Strategy: business model and sustainability related initiatives	
Disclosure N 2 – Material sustainability matters	The standard is ambiguous if there is a difference in approach regarding material sustainability matters between the N-PAT module and the BP-module. In p 43 the undertaking is encouraged to use the list contained in Appendix B as guidance for the identification of its material sustainability matters whereas in the BP-module the materiality analysis described in paragraphs 42 through 57 is required and the undertaking shall disclose the material sustainability matters resulting from its materiality analysis based on the list provided in Appendix B: List of sustainability matters.
Disclosure N 3 – Management of material sustainability matters	
Disclosure N 4 – Key stakeholders	If the undertaking has engaged with stakeholders, it would be relevant to disclose the matters in N-4, the "may" could therefore be replaced by a "shall". Stakeholder engagement is important to inform the double materiality analysis but is taken very light in the standard.
Disclosure N 5 – Governance: responsibilities in relation to sustainability matters	

23. N3 requires the disclosure of policies, actions and targets to manage material sustainability matters. There are other schemes used by SMEs requiring reporting of similar information, such as the European Eco-Management and Audit Scheme (EMAS – Regulation (EC) No. 1221/2009) regarding environmental policies, actions and targets.

Do you see any potential for better alignment with those other reporting schemes?

No

Please explain your answer:

We have nothing to add to this question.

11. QUESTIONS

B) PART 2: Detailed questions on principles and datapoints (ADDITIONAL, to complement part 1)

e. Business Partners (BP) Module

24. While acknowledging the complexities of this calculation specifically for SMEs, the inclusion of greenhouse gas (GHG) Scope 3 emissions as the entity-specific dimension was considered an important element of disclosure in some sectors. The Business Partners Module includes an entity specific consideration for GHG Scope 3 emissions to guide undertakings in certain sectors and for which Scope 3 GHG emissions are material in addition to the disclosures envisaged in B3 Energy and GHG emissions (Basic Module).

Do you agree with the inclusion of GHG Scope 3 emissions in the Business Partner Module in the paragraph “*Entity specific consideration when reporting on GHG emissions under B3 (Basic Module)*”?

Yes

Please explain your answer:

FAR agrees that Scope 3 emissions may represent a large portion of company's total GHG-emission and disclosures may provide valuable information for value chain stakeholders. However, paragraphs 69 and 70 are not clearly expressing if, or when, disclosing Scope 3 emission are required. It is unclear if it is an option or guidance. SMEs will likely struggle to obtain accurate Scope 3 emissions figures whereas we believe that an EU GHG emissions calculator would be useful enabling SMEs to provide an approximation of their Scope 3 emissions.

25. Do you agree with the content of disclosures required by the Business Partners (BP) Module of VSME ED? Please note that you can find the background for each Disclosure in the Annex 2 Basis for conclusions for VSME ED (BC130. to BC149). Please include your feedback in the table below:

	Comment:
Disclosure BP 1 – Revenues from certain sectors	The guidance to BP 1 only repeats what is already stated in the BP-module. The guidance is not clear whether the disclosures requirement is related only to the SMEs own operations or if it also covers business relationships in the value chain. For example, if a consultant has an individual advisory assignment to a company that operates in sectors that produce tobacco.
Disclosure BP 2 – Gender diversity ratio in governance body	
Disclosure BP 3 – GHG emissions reduction target	
Disclosure BP 4 – Transition plan for climate change mitigation	
Disclosure BP 5 –Physical Risks from climate change	This disclosure requirement is complex and extensive whereas more guidance should be considered. Such guidance could cover how physical risks from climate may have anticipated financial effects on the company in other ways than on the carried value on assets, and if such assets mainly are real estate or what other assets that may be affected.
Disclosure BP 6 – Hazardous waste and/or radioactive waste ratio	
Disclosure BP 7 – Alignment with internationally recognized instruments	See Q 32
Disclosure BP 8 – Processes to monitor compliance and mechanisms to address violations	See Q 32
Disclosure BP 9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles (including the principles and rights set out in the 8 fundamental conventions of the ILO Declaration and the International Bill of Human Rights)	See Q 32
Disclosure BP 10 – Work-life balance	We consider this metric to be irrelevant to SMEs. Information on work-life balance is a real issue affecting many workers, but BP-10 only covers one element. The concept of work-life balance often depends on national legal requirements. We suggest additional KPIs are added to this disclosure requirement, for example: - Disclosure of policies relating to flexible working and working from home - Disclosure of amounts of extra-statutory paid leave granted - Disclosure of limits on amount of time for which sick pay is paid - Disclosure of holiday entitlement not taken.
Disclosure BP 11 – Number of apprentices	We do not find this disclosure to be useful – especially as a measure of negative impacts. It could, however, be useful in certain sectors where apprenticeship is embedded in the business model.

26. With reference to disclosures BP 7, BP 8 and BP 9, the objective of these three disclosures is to assess the SME's commitment to respecting human rights. The ED has used the terms in the Sustainable Finance Disclosures Regulation (SFDR), applicable to the financial market participants (for example banks), for consistency purposes.

Are there alternative disclosures covering the same objective regarding the human rights of own workforce and that are more suitable than these disclosures?

Yes

Please explain your answer including updated/proposed text:

It is very unlikely that SMEs will have the resources to grasp these complex and often high-level documents such as the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the ILO Declaration on Fundamental Principles and Rights at Work and business partners should be cognisant of that fact.

These disclosures could be replaced with objective metrics that should be relatively easily achievable with the information that most SMEs will possess on their workforce and suppliers etc. Some examples could be if the company has implemented a code of conduct, what it covers and who is covered by it, if the company has a compliance control process and if any violations have been identified, and if the own workforce has been trained on the content of the code of conduct.

27. Do you think that it would be beneficial to split the Business Partners (BP) Module into sub-modules depending on the nature of the user (for example “banks”, “investors”, “large corporates”)?

Please select:

No

Please explain your answer:

We believe that splitting the BP module into sub-modules would be premature. In our opinion, it would be better to include the main sectoral disclosures in the BP module, replacing some of the existing elements and enhancing the remaining elements. If sectorial disclosures are included it would make sense to split the BP module into sub-modules.

28. Some of the questionnaires of banks and other business partners analysed by EFRAG Secretariat included also datapoints related to the EU-taxonomy regulation, despite non-listed SMEs being out of scope. EFRAG considered that preparing this information would be too complex for non-listed SMEs. We note that the EU Platform for Sustainable Finance may in the future make a proportionate tool for EU-taxonomy available. In particular, to meet the technical criteria for inclusion in the climate mitigation taxonomy, large undertakings have to consider the greenhouse gas (GHG) emissions of their various economic activities. These undertakings will need data from their suppliers. Small and medium-sized enterprises (SMEs) playing a crucial role in these undertakings’ supply chains may be asked to provide the following information voluntarily to streamline the process for themselves and their clients:

SMEs whose activities fall under enabling activities of the Climate Delegated Act, e.g., categories 3.6 (Manufacture of renewable energy technologies) or 9.1 (Market research, development and innovation), should disclose the emission savings of their technology compared to the best-performing alternative.

Do you think that VSME ED should include this additional datapoint to cover EU-Taxonomy disclosures?

No

Please explain your answer:

The inclusion of this additional datapoint to be premature and also irrelevant for many SMEs that would be looking to apply the VSME. If, and when, EU Platform for Sustainable Finance has developed a proportionate tool for EU-taxonomy, inclusion of additional datapoint may be relevant.

29. In order to help SMEs prepare their sustainability report, specific guidance has been developed for the Business Partners Module in paragraphs 169 to 193 of the ED.

Do you think that it is useful in the preparation of the sustainability report? Do you think it is sufficient?

No

Please explain your answer:

FAR believes that guidance is useful but in terms of sufficiency we believe more examples should be included in the guidance for the BP-module. Please see our answer to Q 30.

30. Please provide any further comments not addressed in part 1 or 2 of the questionnaire here:

We believe there is need for reliable European tools for sustainability reporting, mainly for carbon calculators that SMEs can use to provide accurate and acceptable data to their value chain. If developing European tools is not possible, consideration should be given to certification of existing software solutions or at least the publication of accepted bases of calculation etc.

31. If you want to provide additional comments on aspects not covered in the questionnaire, please upload your file here.

12. C: Part 3: Value chain cap (Separate section on the value chain cap as determined by the

ESRS LSME)

Non-listed SMEs receive data requests from large undertakings, including due to reporting obligations in the CSRD.

Jointly with the consultation on VSME ED to the consultation on this voluntary standard for non-listed SMEs, EFRAG is also consulting on the content of ESRS for listed SMEs (ESRS LSME ED). While ESRS cannot result in large undertakings having to request disclosures that are not included in ESRS LSME ED (which sets the value chain cap from a legal perspective), the VSME ED is intended to play a key role in supporting SMEs, when they prepare the information needed by large undertakings for ESRS reporting, as well as for other obligations including for business purposes. Therefore, VSME ED includes simplified disclosures that generally correspond to the reasonable expectations of ESRS Set 1 preparers (i.e. large undertakings that prepare their sustainability statement under ESRS). As a consequence, non-listed SMEs that apply VSME ED will in general be able to meet the data requests defined for value chain in ESRS LSME ED, except for very specific cases. These cases correspond to disclosures which are included in ESRS LSME ED (therefore SMEs may receive data requests from large undertakings relating to these disclosures, either due to their ESRS reporting obligations or for other obligations and business purposes), but are not included in the VSME ED, due to their excessive complexity for non-listed SMEs in general. They are principally of a sectorial nature (GHG Removals, substances of concern/high concern, resource inflows), mainly needed for management or specific arrangement purposes. More information is provided on these disclosures in [Annex 3](#).

Please note that the questions on the value chain cap here are the same as in the LSME questionnaire in part A2 and if you respond to both questionnaires, you do not need to repeat your answers.

32. Do you agree with the approach EFRAG has taken on the Value Chain Cap?

No

33. Are you willing to provide detailed feedback based on Annex 3?

No

34. Please explain your answer in brief.

The CSRD specifies the LSME as the value chain cap. However, the current LSME is too detailed and complex to provide much relief from value chain requests. We believe that the LSME should be closer in length and complexity to the VSME. We also believe that an important part of the business partners disclosures causing concern arise from sectorial requirements and that a simplified set of sector-specific disclosures should be built into the VSME.

35. Please provide other comments on the value chain cap, if any.

13. Thank You!

Thank you for taking our survey. Your response is very important to us.