

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

[draft] VSME V1.1 SRB Survey results and EFRAG Secretariat preliminary observations

Number of respondents: 11

Critical or low support answers are highlighted in **yellow**.

For the secretariat responses to the detailed comments submitted by SRB when answering the survey, please see "Summary of detailed feedbacks VSME SRTEG and SRB" uploaded for this meeting.

Building block approach (11 respondents)

A large majority (82 percent) agreed that the building block approach is clear. The main comments highlighted the need for clarification of how building blocks (step 1 -3) can be combined. Among those who disagreed, a **proposal was given to change the order of the proposed steps** to the following:

- VSME 1st step : metrics data-set (core-entry level)
- VSME 2nd step: step1 + EU SF datapoints
- VSME 3rd step: step 2 + narrative information & PTA

One comment asked for the approach to be changed based on the principle of "Think Small First" whereby the VSME ESRS are developed on the basis of what is best suited to SMEs and their stakeholders, rather than being simplified ESRS disclosures.

EFRAG Secretariat initial observations:

The primary purpose of VSME is to serve the information needs of lenders, investors and counterparties in the value chain. Exchanges with banks and the questionnaires that EFRAG Secretariat has seen show that the EU SF datapoints are often included. This is the reason why they are included as step 3. We would suggest for this reason to keep the approach as in the initial proposal.

Building block (step 3 EU SF Law Module) (8 respondents)

Secretariat suggests to include in the EU module that only SFDR Table1 PAI, Benchmark Regulation and ESG Pillar 3 CRR datapoints are included for proportionality reasons.

- 91 percent of SRB members agreed.

Scope of reporting for Micro-, Small- and Medium-sized undertakings (11 respondents)

Size of undertaking	Voluntarily apply VSME step1 (Building Block "Step1, dataset metric only")	Voluntarily apply VSME step2 (Building block "metrics" + "narrative")	Voluntarily apply VSME step3 (Building blocks "metrics" + "narrative" + optional EU SF law module")	Voluntarily apply LSME ESRS	Voluntarily apply main ESRS Set1
Micro enterprises (>10 employees)	80 %	20 %	0 %	0 %	0 %
Small non-listed companies (10 - 50 employees)	18 %	55 %	27 %	0 %	0 %
Medium non-listed companies (50 - 250 employees)	0 %	36 %	46 %	18 %	0 %

EFRAG Secretariat initial observations:

The EFRAG Secretariat proposes to clarify that, being VSME a voluntary standard, the indication of the three different steps are to be understood as 'target disclosures for micro-entities' (Step 1). We would suggest not to have an explicit indication of whether small entities should aim at Step 2 and medium at Step 3, as it will depend on the requests of the counterparties.

Micro-sized undertakings (11 respondents)

- Among those that disagreed, a comment stated that there is no reason to provide exemptions for the different steps since there is no legal obligation to report on VSME ESRS.
- One comment argued that this possibility should be extended to small entities as well.
- Another comment said the scope should be broadened to include Micro undertakings irrespective of their legal status.

Medium-sized undertakings (11 respondents)

Recommendation on the scope of medium-sized enterprises should be done on which basis:

Par. 1.1 to indicate for medium sized enterprise:	Agree	Disagree	# respondents
i. The use on a voluntary basis of LSME ESRS	60 %	40 %	10
ii. The use of VSME step3 (EU SF law module)	37 %	63 %	8
iii. No further indication for medium sized enterprises	78 %	22 %	9

Further comments pointed out:

- One respondent strongly disagreed with having such a recommendation. For the time being, it must be sufficient for medium-sized undertakings to use VSME. Given the voluntary regime they may wish to use LSME but this need not be stated in the VSME. For an unlisted SME this will confuse rather than help, their first choice should clearly be VSME.
- One comment stated that medium enterprises should report on LSME ESRS since there is not much difference between listed and non-listed.
- Medium enterprises are in need of guidance on how to report, it is good to make a recommendation for this category of companies.
- One comment asked to keep it simple and refer to EMAS.

- One comment pointed out that the recommendation should be VSME + EU SF Law module since this allows for consolidation which LSME ESRS does not.

EFRAG Secretariat initial observations:

The EFRAG Secretariat proposes to clarify that, being VSME a voluntary standard, the indication of the three different steps are to be understood as ‘target disclosures for micro-entities’ (Step 1). We would suggest not to have an explicit indication of whether small entities should aim at Step 2 and medium at Step 3, as it will depend on the requests of the counterparties. The application of LSME would be problematic as it applies an ‘individual approach’ which produces less relevant outcomes than the consolidated approach.

General Disclosures (11 respondents)

Do you agree with the main simplifications in General Disclosures and Narrative (PAT)?

VSME General Disclosure	Main simplification	Agree/ Disagree	Comment
5. Basis for Preparation	DR 1 and DR2 – includes statement on whether the undertaking has used the consolidation or not, if micro undertakings have used metrics dataset only, if the optional EU SF law module is used.	Agree: 100 %	Needs further context, in particular for 38 (b) - i.e. that applying the standards come with an obligation. One member of the SRB pointed out that the wording is not understandable and requested to have this explained.
6. Governance	DR 3 - Governance bodies responsibilities asking for (i) governance structure (highest body or individual) and; (ii) related gender diversity ratio	Agree: 82 % Disagree: 18 %	Keep only ii) Not pertinent for SMEs Governance bodies may differ in smaller companies.
7. Strategy	DR 4 – Business model, strategy and value chain Key elements strategy and business model sustainability matters A brief description of value chain DR 5 – Key stakeholders May report, when undertaking engages with key stakeholders.	Agree: 80 % Disagree: 20 %	I support the DR, except for the reference to "participation to business associations". I would suggest to delete this, and to add "or other relevant commitments" as this is far more relevant Architecture and main requirements should be kept

VSME General Disclosure	Main simplification	Agree/ Disagree	Comment
8. Management of material matters	<p>DR 6 – Material sustainability matters Disclose material sustainability matters (as in “List of sustainability matters”). If applicable interaction with strategy. <i>maximum simplification only materiality matrix.</i></p> <p>DR 7 - Material matters and related policies, actions, metrics and targets Policies, actions and targets to address the material topics and sub-topics – if applicable.</p>	<p>Agree: 80 % Disagree: 20 %</p>	Architecture and main requirements should be kept

General Requirements (11 respondents)

Do you agree with the proposed main simplifications in General Requirements?

VSME ESRS V1.1 General requirements	Agree	Disagree	Comment	EFRAG Secretariat initial observations
1. Categories of disclosures				
Required information on actual and potential negative impacts and financial risks	91 %	9 %		
Requirement to integrate additional entity-specific disclosure	82 %	18 %	On a voluntary basis	This is a pillar of the ESRS and making it optional would not serve the purpose of comparability.
2. Qualitative characteristics of information				
	91 %	9 %		
3. Double materiality as the basis for sustainability disclosures				
3.1 Stakeholder and their relevance to the materiality assessment process	91 %	9 %		
3.2 Material matters and materiality of information	90 %	10 %	Lacks reference to other impacts/risks beyond App. B	
Performing a materiality assessment is necessary to identify material matters (ref. to app. B)	100 %	0 %		
All 'shall' information to be included, also metrics corresponding to non-material matters (this is justified by having defined a minimum dataset that responds to users' needs; it also eliminates the burden and judgement arising from assessing the materiality of each datapoint)	64 %	36 %	Three comments argue that only material information should be required to reduce reporting burden.	See page 3 of paper 03-03.

VSME ESRS V1.1 General requirements	Agree	Disagree	Comment	EFRAG Secretariat initial observations
For narrative information report material information necessary to comply with qualitative characteristics of quality	100 %	0 %		
3.3 Impact Materiality	100 %	0 %		
3.4 Financial materiality	100 %	0 %		
4. Preparation and presentation of sustainability information				
4.1 Presenting comparative information	100 %	0 %	<ul style="list-style-type: none"> Comparative information must be linked to the time horizon notions. Include the transitional provision directly here. 	
4.2 Time horizons	91 %	9 %	Leave flexibility in definition of medium & long term horizons	Flexibility increases costs for smallest entities that have limited skills and limited managerial time.
4.3 Consistency and connectivity of disclosures	100 %	0 %		
4.4 Location of the sustainability statement and incorporation by reference	91 %	9 %	Include more possibilities for the incorporation by reference	Smallest entities do not issue some of the docs to be incorporated by reference (e.g. governance report, remuneration report) so the number of docs to be potentially incorporated is lower than for the large entities.
4.5 Proportionality	91 %	9 %	Very important for SMEs	
4.6 Optional disclosures	82 %	18 %	Add flexibility to incorporate full ESRS standards or metrics	Flexibility increases costs for smallest entities that have limited skills and limited managerial time.
Positive impacts and opportunities	91 %	9 %		
EU law module	82 %	18 %		
4.7 Classified and sensitive information, and information on intellectual property, know-how or results of innovation	91 %	9 %		

Metrics – Environment

VSME ESRS Key Metrics (Step1)	Agree/ Disagree	Comment
9. Environment		
DR- 8 – Energy and carbon emissions (CO2)	Agree: 90 % Disagree: 10 % <i>10 respondents</i>	SMEs should be encouraged to go beyond basic compliance with EU law. Disclosure requirements should be primarily determined by what we expect SME stakeholders will most want to know, not what EU law requires. It is vital that the VSME has the right focus on the environment (E) as it's the most time sensitive areas, in particular carbon emissions and pollution. In due course, say after its first review, DR may be refined and use of "may disclose" be replaced by "shall disclose".
Disclosure Requirement 9 – Pollution of air, water and soil	Agree: 91 % Disagree: 9 % <i>11 respondents</i>	<ul style="list-style-type: none"> - The current requirement (55 & 56) does not sufficiently specify what companies should report and how - i.e. type of metric or unit of measure etcetera. - Based on the understanding that it is only triggered if material (for practical approach either the legal requirement or an EMAS /ISO requirement) as the SME may have activities outside Europe. - Disclosure of all pollutants referring to EPRTTR is too granular and double reporting.
Disclosure Requirement 10 – Biodiversity	Agree: 91 % Disagree: 9 % <i>11 respondents</i>	<ul style="list-style-type: none"> - We cannot ask SMEs for disclosures on metrics where we have not done so for large undertakings. These biodiversity measures are too complex. - While an important area reporting on biodiversity is less well established than carbon emissions and pollution. We therefore support the use of "may disclose" rather than "shall disclose".
Disclosure Requirement 11 – Resource use, circular economy, water consumption and waste management	Agree: 82 % Disagree: 18 % <i>11 respondents</i>	<ul style="list-style-type: none"> - Perhaps this should be captured under DR 9, but I miss 'hazardous waste' as a separate metric. Also smaller companies sometimes disobey the law and can create significant negative impacts on their direct environment and community. - Reference to existing systems like EMAS (ANNEX IV) would be better and more efficient.

Metrics – Social

VSME ESRS Key Metrics (Step1)	Agree/ Disagree	Comment
10. Social		
Disclosure Requirement 12 – Workforce – General or workforce characteristics	Agree: 91 % Disagree: 9 % 11 respondents	<ul style="list-style-type: none"> - is too granular and of low relevance for users/stakeholders. - "region" may be misleading and should maybe be more flexible in the disaggregation, for instance by singling out countries with more than 20 percentage of the employees (this would be 10 for a company with 50 employees and 50 for a company with 250 employees) is disaggregation is needed at all (could also be EU/non-EU) - Consider either eliminating "number of employees by region" or replacing with "by country".
Disclosure Requirement 13 – Workforce – Health and safety	Agree: 82 % Disagree: 18 % 11 respondents	<ul style="list-style-type: none"> - I would keep b) only - This is not relevant for micro companies and small non listed companies;
Disclosure Requirement 14 – Workforce – Equal remuneration, work-life balance and opportunities for development	Agree: 60 % Disagree: 40 % 10 respondents	<ul style="list-style-type: none"> - Not relevant for microcompanies and small non listed companies - 67 (a) is too detailed/irrelevant for SMEs and also no longer mandatory for large undertakings. - I disagree with b - this is difficult to get data for. I would suggest a narrative approach describing the policies around family-related leave. How should the entity deal with carers leave and how do they know whether it is relevant at all without getting data on their family relations?

Proposed included metrics:

For the social metrics, SR TEG members at SR TEG meeting on 13 July, suggested to include the following additions:

DR 12- General or workforce characteristics

a) **placements for trainee** (apprentices);

# respondents	Agree/Disagree	Comments
10 respondents	Agree: 70 %	
	Disagree: 30 %	Too insignificant Disproportionate in level of detail. More important data to include on the E-side if more data is needed.

b) **the percentage of its total employees covered by collective bargaining.**

# respondents	Agree/Disagree	Comments
11 respondents	Agree: 82 %	
	Disagree: 18 %	Why relevant? - an informed user would know anyway whether an SME in a certain industry would be covered by collective bargaining agreements.

DR 14 Workforce – Equal remuneration, work-life balance and opportunities for development

a) **whether or not all its employees its employees are paid an adequate wage**, in line with applicable benchmarks. If so, stating this will be sufficient to fulfil this disclosure requirement and no further information is needed.

# respondents	Agree/Disagree	Comments
10 respondents	Agree: 60 %	
	Disagree: 40 %	Not sure what "adequate wage" means. Too much of a burden for SMEs (they would need to compare to a benchmark and assess their population). Too vague, not precise enough.

Metrics – Business Conduct

VSME ESRS Key Metrics (Step1)	Agree/ Disagree	Comment
11. Business Conduct		
Disclosure Requirement 15 – Responsible Business Practices	100 % 10 respondents	No comments.

Appendix A

Defined terms

Main comments were:

- Generally revise wording and phrasing in the Appendix.
- The Scope 3 emissions definition includes an explanation on its estimation nature - this would in my view be part of an AR or to be included in the DR [apart from this, VSMEs would not need to report Scope 3 emissions?]
- The policy definition includes an explanation about the existence of policies (last two sentences) - should not be part of the definition I believe, but be an AR or part of the DR.
- I don't think the term SME as such includes micro-undertakings, so we could be more precise here.
- The stakeholder definition is exactly the same as in the main body - we could delete.

Additional comments

- I believe the standard should be exposed for comments with the current set of disclosures as I believe this will help the discussions on the LSME-standard as well.
- Consider adding Appendix C: Illustrative sustainability statement prepared in accordance with this Standard or providing this as part of separate implementation guidance.
- Latest changes of the delegated acts should be still incorporated.
- We should stay mindful that we really talk about very small companies that will neither have the resources for extensive reporting not the impact that would require such extensive reporting.
- I would suggest to prepare an illustrative example and include the application requirements as explanation/guidance in this document to make it "hands on"
- Given the key role SMPs stand to play in the take up and implementation of the VSME it is vital that their voice is heard when the draft is exposed for public comment. EFAA is committed to helping EFRAG do this, but EFRAG will need to proactively seek the views of SMEs and SMPs. Furthermore, as the VSME will likely be used by many thousands of SMEs, EFRAG must increase the representation of SMEs and SMPs at least on its SR TEG and, if it is possible, in the SRB.
- Architecture should be more aligned.