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VSME Final Discussion Cover Note

Objective

1. The objective of this session for SR TEG is to have a final discussion before approval of the Exposure Draft of voluntary reporting standard for SME (VSME ESRS ED - Agenda paper 07-02).

VSME overview of changes after SR TEG decisions

1. EFRAG Secretariat has updated the VSME content based on the internal consultation feedback (SR TEG and SRB comments) and the decisions taken on VSME in 20 and 29 September and October 2 2023 SR TEG meetings.
2. An illustration of the SR TEG and SRB comments is available as part of the EFRAG SRB agenda papers for the 13 September 2023 (see paper 07-06).
3. A brief overview of the decisions and changes agreed in SR TEG after the internal survey is presented in the table below. Please note that these changes are highlighted in **green** in agenda paper 07-02.

Simplified Language on Cross-cutting requirements	<ul style="list-style-type: none"> - Further simplify the language of the VSME v2 to minimize reporting efforts and abate/eliminate if possible external consulting costs to the undertakings. - SR TEG agreed to keep the proposed order of par. 1 letters a), b), c) and d) and: <ul style="list-style-type: none"> o Avoid the use of the word ‘facilitate’ in point c) o Delete the last part of point d): <i>‘including also SMEs outside the scope of the Corporate Sustainability Reporting Directive (CSRD).’</i> - SR TEG agreed to: <ul style="list-style-type: none"> o Review the wording of par 3 to clarify the reference to the CSRD Directive and ESRS.
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	<ul style="list-style-type: none"> ○ Simplify the first sentence of par 6 into <i>“This standard (...) provide relevant information on:”</i> ○ Delete “of high quality” in par 7 ○ Clarify the definition and combination between three modules (now explained in par 9, 10, 11, and par 14) - On Materiality, SR TEG agreed on: <ul style="list-style-type: none"> ○ The need to capture both financial and impact materiality (double materiality approach) (par 39) ○ Redrafting the first sentence of par 41 ○ Par 41 a): Sticking to <i>“potential impact are those that are likely to happen”</i> because of consistency with ESRS SBM-3 ○ Deleting examples on both impact and financial materiality ○ Keeping the part of paragraph 52 starting from <i>“The final step is to consolidate ...”</i> - On Stakeholders: agreement to stick with Set 1 definition and: <ul style="list-style-type: none"> ○ Redraft the second part of par. 50 b) into <i>‘(b) users of SS, including investors, lenders, business partners, social partners and civil society organizations.’</i> ○ Add a point (par 51) that would specify that the composition of stakeholders may not cover the full list of categories for the reporting undertaking. - On Disclosure N 2, SRT agreed to: <ul style="list-style-type: none"> ○ Add the address of the company and location of own production sites ○ To clarify “each matter” in paragraph 54a ○ Change the wording in paragraph 54b and c to clarify “their”. - On Disclosure N 3, SRT agreed to: <ul style="list-style-type: none"> ○ change word “geographies” with “the countries that they are active in”. (par. 55b) ○ keep the paragraph as it is (with all romanins). ○ delete sentence “Micro enterprises can omit disclosure on policies or actions.” ○ Add any actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery (par 56) - On Disclosure N 4 (par. 57 a), SRT agreed to replace “list” with “categories”.
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	- On Disclosure N 5 (par 58 b) , SRT agreed to keep the gender diversity ratio.
Environment	- SRT agreed to: <ul style="list-style-type: none"> ○ have guidance on how to calculate metrics, especially for the DRs of Environment. ○ add per each metric, if applicable or if you have an industrial or manufacturing process, as guidance. ○ Change the title of Disclosure B 3 to “<i>Energy and greenhouse gas emissions</i>” and content of par 24 concerning scope 1 and 2 emissions. ○ have a separate DR for water (Disclosure B 6)
Social	- On Disclosure B 8 , SRT agreed to have the number of employees by gender and by country (par 33) - On Disclosure B 10 , SRT agreed to include: <ul style="list-style-type: none"> ○ Adequate wage (par 35a) ○ A threshold of 150 employees for gender pay gap ○ collective bargaining coverage (par 35c) - On placement issued for trainees (apprenticeships) , SRT agreed to have this datapoint as a “shall” in the Sustainable Finance Module and test it in outreaches.
Business Conduct	- On Disclosure B 11 , SRT agreed to keep the number of convictions and fines (par 36).

Can SF module replace supply chain questionnaires?

1. On the 5th of October EFRAG Secretariat held a workshop with CSR Europe.
 - a. Thirteen large companies and twelve national business associations attended the meeting.
 - b. The key takeaways from the meeting are:
 - i. General support for both the Basic Module and Narrative-PAT Module.
 - ii. Within the basic module, there was a suggestion to introduce practices as a way for the small and medium undertakings to disclose what they are doing towards sustainability, even if they do not have Policies, Actions or Targets (PAT) in place.
 - iii. Concerning the SF Module, the majority of participants agreed that these datapoints would be useful to meet their information needs (when interacting with SMEs as suppliers) and confirmed that the data asked in this module are also useful to cover supply chain questionnaires.
 - iv. The meeting was not conclusive as to whether the corporates would be ready to ‘abandon’ their questionnaires in order to adopt a data model aligned with VSME. One participant, in particular, noted that the questions covered in the SF Module are not enough to cover sector questionnaires, but that specific integrations would be added



to the basic module. **The EFRAG Secretariat expects more input in the coming few weeks from corporates on this point and understand that there is an element of sector-specificity that cannot be tackled by VSME. The question on how many additional datapoints would be required by corporates as a top-up (less than 20%? More than 20% and less than 50%? More than 50%) is a key question to raise in the consultation.**

2. Further outreach meetings are scheduled as follows:
 - a. 13 October 2023 with Business Europe
 - b. 20 October 2023 with SME United
 - c. 20 or 23 October 2023 with Banks
 - d. 27 October EWG meeting.

VSME topics for discussion in SR TEG

1. The topics for discussion in SR TEG in this meeting are presented in the table below. Please note that these are highlighted in **yellow** in agenda paper 07-02. Those topics for discussion emerged in the editorial meetings that the secretariat has held with some SR TEG members as agreed at SR TEG on 2nd October. Other proposals emerged from exchanges in ongoing outreach events.

Topic to Discuss/Inform	Explanation
“Undertaking” to replace “SME” (inform)	There are different legal definitions of SMEs in Member States.
Narrative-Policies, Actions and Targets Module instead of just PAT Module (inform)	From outreach events as well as by TEG members it emerged that the acronym PAT is not immediate to understand and thus should not be used alone.
Paragraph 2: Reference to Article 3 of Directive 2013/34/EU (inform)	Add explicitly thresholds for defining SMEs in Accounting Directive to ensure consistency (national thresholds and definitions may differ).
Paragraph 8: entity specific disclosure (discuss)	To discuss the adoption of ‘shall’ or ‘may’.
Disclosure B 2: Practices for transitioning towards a more sustainable economy (discuss)	Following outreach, in order to give the opportunity to small and medium sized undertakings to disclose practices, this disclosure has been inserted.
Paragraph 42 (Impact Materiality) (discuss)	Content to be discussed concerning the definition of scale, scope, and irremediable character of the impact.
Sustainable Finance Module (discuss)	To achieve a balance between simplification and the language used in Set 1, this module has been revised since last version.



Guidance on Environmental Metrics (discuss)	As agreed in SRT, Secretariat prepared guidance for calculations on Environmental metrics
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Questions for EFRAG SR TEG

Please note that this is the last SR TEG discussion before the approval of VSME. Should EFRAG SR TEG members have any remaining concern that could affect your intentions to approve the ED, they should provide those concerns in this meeting. After this meeting only editorial comments are expected.

With reference to Agenda Paper 07- 02 – [Draft] VSME ESRS ED:

1. Please provide your view on the simplified text of VSME v.2
2. Please provide your view on the topics for information listed in the table above at par. 3
3. Please provide your view on the adoption of ‘may’ or ‘shall’ for entity specific disclosures.
4. Does EFRAG SR TEG agree with the adoption of Disclosure B-2 “Practices towards for transitioning towards a more sustainable economy”?
5. Please provide your view on the definitions of scale, scope and irremediable character of impact.
6. Does EFRAG SR TEG consider that the Guidance on Environmental Metrics is sufficiently clear?
7. Does EFRAG SR TEG agree with the revised SF Module? In particular, in the current version Scope 3 is missing, do you think it should be added? Is there any SFDR datapoint that should be added?
8. Does EFRAG SR TEG consider that agenda paper 07-04 – VSME Defined Terms, should also include guidance? (see for example Policy definition)

Agenda Papers

1. In addition to this cover note, agenda papers for this session are:
 - a. Agenda paper 07-02 – [Draft] VSME ESRS;
 - b. Agenda paper 07-03 – [Draft] VSME ESRS ED- markup from the version used in the internal survey on 24 July 2023;
 - c. Agenda paper 07-04 – VSME Defined Terms [LATE UPLOAD];
 - d. Agenda paper 07-05 – Comparison of ESRS Set 1/LSME/VSME on three columns [LATE UPLOAD].
 - e. Agenda paper 07-06 – Comment log VSME V1.1 SR TEG and SRB feedback

