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## [draft] VSME V1.1 SR TEG and SRB Summary of detailed comments

1. Number of respondents: 11 SRT and 11 SRB members provided some detailed comments on specific topics
2. This paper provides a summary of the comments that EFRAG Secretariat highlighted as key discussion points for the SR TEG meeting of 20 September 2023.
3. EFRAG secretariat suggests that SR TEG discussions focus on the comments that have been identified as pending, either because i) there are conflicting views, or ii) they are new proposal compared to draft text in in LSME and VSME or iii) further clarification is needed.
4. These comments are illustrated below. SR TEG may refer to agenda paper 03-02 – LSME V3.1 Comment log SR TEG and SRB feedback for a detailed view of the LSME feedback.
5. The main categories of the comments are either content or editorial. For the editorial comments, the Secretariat has reviewed and implemented changes accordingly. Content-related comments will either be reflected if obvious and non-contentious, clarified with the author or reopened for discussions in future meetings. The number of comments is aggregated as follows<sup>1</sup>:

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<sup>1</sup> The comments that Secretariat is not sharing in this SR TEG meeting were included in the draft proposal or not included based on previous discussions at SR TEG meetings, the decision tree and the approach taken. Please refer for more details to paper 03-02 – VSME V1.1 Comment log SR TEG and SRB feedback. This number of comments also includes a small number of detailed comments from the SRB.



Total number of comments in VSME <sup>2</sup>	224
Total number of accepted/addressed comments	168
Total number of selected comments to discuss at SR TEG in VSME	13
Total number of selected comments to inform SR TEG in VSME	19

## Discuss and agree in SR TEG (14 points to be discussed)

Total number of issues to be raised with TEG: **14**

Disclaimer: Please know that this summary also contains comments from the SRB and is not only representing the views of TEG. If this is the case, it is marked in connection to that comment.

Para.	Comment	Proposed new draft	# of comments	Classification	Secretariat response	Action
6	<b>General Requirements – no disclosure needed based on undue cost or effort</b> Redraft paragraph to ask for an explanation in case the SME cannot fulfil all requirements in	<i>“The SME can only state that it has complied with the Standard when it has complied with all the requirements of the Standard. The SME can exempt itself from a requirement when its application would cause undue cost or effort and still claim compliance. If such as exemption is used,</i>	1 comment (SRT)	<b>Pending</b>	This addition would increase the discipline and contribute to limiting a "cherry picking" approach.  Exemption to disclose based on cost consideration needs discussion in SRT.	Discuss and agree in SRT

<sup>2</sup> The comments that Secretariat is not sharing in this SR TEG meeting were included in the draft proposal or not included based on previous discussions at SR TEG meetings, the decision tree and the approach taken. Please refer for more details to paper 03-02 – VSME V1.1 Comment log SR TEG and SRB feedback. This number of comments also includes a small number of detailed comments from the SRB.



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	the standard due to undue cost or effort.	<i>then the SME must give reasons. The accessibility of data will override the obligation to report</i>				
7, 17	<b>Materiality</b> Explain what is meant by materiality and material information.	<i>"The SME shall disclose material information on how its actions negatively impact, or pose risks to, the environment, society, and business conduct (governance). Material information is information that if known to the user of the information [reader] is likely to change the way they act. The information shall help readers understand how these negative impacts affect the SME's own development, performance, and position."</i>	2 comments (SRT)	<b>Pending</b>	<p><b>Secretariat initial observations:</b></p> <p>Materiality has been discussed in meetings with banks and SME United as a difficult aspect. They referred to the following two possible options:</p> <p><u>1/ Keep materiality but simplify language.</u></p> <p>The Secretariat has reservations on simplifying the language for the fundamental principles such as the definition of material matters/information, as it has to be aligned with LSME and ESRS. Giving new definitions or using different wording causes confusion and might be considered as meaning something different. The alternative wording proposed by the SR TEG member seems to focus on users needs and omits the reference to severity.</p> <p><u>2/ not apply materiality on policies, actions, targets, and metrics (entire chapter 3) and replace with a checklist of sustainability topics (AR 16 ESRS 1 but limited to sub-topics</u></p>	Discuss and agree in SRT



Para.	Comment	Proposed new draft	# of comments	Classification	Secretariat response	Action
					<p>to reduce the granularity) <u>and apply materiality only for the EU law module (VSME step 3).</u></p> <p><b>Pros:</b> extreme simplification.  <b>Cons:</b> consistency of building blocks and VSME as minimum content. (can it still be minimum content if it does not include materiality?)</p> <p>The current approach to materiality is:</p> <ol style="list-style-type: none"> <li>1) <u>Metrics:</u> materiality of information is not applied. All the metrics are to be reported.</li> <li>2) <u>Policies and Actions:</u> the undertaking only reports the policies and actions to address material matters that has in place.</li> <li>3) <u>Targets:</u> whether it has adopted targets to measure its progress</li> </ol> <p>The discussion should focus on materiality of matters: disclosing which matters are material will also allow to understand which of the material matters the undertaking has no Policies Actions or Targets in place. From one hand, assessing the materiality of</p>	



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					<p>matters is costly. From the other hand, disclosing the matters that are material is an essential information.</p> <p>Possible way forward:</p> <ul style="list-style-type: none"> <li>- Include a simplified description of the material matters (sub-topics)</li> <li>- Use AR 16 as a 'check-list': disclose the table with YES/NO to indicate which topics are material.</li> </ul> <p>However, these simplifications would not eliminate the need to run the materiality analysis in relation to the EU module datapoints (VSME step 3).</p>	
19	<b>Deletion of “potential impacts”</b> Request to delete “potential impacts” to reduce complexity (and keep actual impacts only).		1 comment (SRT)	<b>Pending</b>	Reasoning for not considering this: Cluster 8 also had potential impacts, so has OECD and objective is not to go for a different definition of impacts - this would be confusing and also not in line with the building block approach.	Discuss and agree in SRT
39	<b>Delete requirement to report on errors in previous reporting periods &amp; on significant estimation uncertainty</b>	Delete DR 2 – Significant uncertainty and changes in preparation and presentation	1 comment (SRT)	<b>Pending</b>	Secretariat proposes to accept the comment and delete to be more proportionate.	Discuss and agree in SRT



Para.	Comment	Proposed new draft	# of comments	Classification	Secretariat response	Action
42	<p><b>Governance bodies – gender diversity</b></p> <p>Request to reformulate DR 3 in accordance to Cluster 8 (DR 10). Governance information should not only be about sustainability matters. In addition, it should specify what Cluster 8 wrote about the content regarding ownership organisational statute.</p> <p>Skip the gender diversity ratio. SMEs are very often family businesses or a partnership so they have no choice on whom will be in the board. It seems that according to art 13 of Directive (EU) 2022/2381 on improving the gender balance among directors of listed companies and related measures, the Commission for its</p>	<p>Disclosure Requirement 3 – Governance bodies responsibilities 43. The SME shall describe:</p> <p><del>(a) the governance structure, in relation to sustainability matters. If applicable in terms of roles and responsibilities of the highest governance body or of an individual in its organisation, in exercising oversight on material sustainability matters; and</del></p> <p><del>(b) when there is a governance body, the related gender diversity ratio.</del> and Shareholder structure. The undertaking shall provide information about its governance and shareholder structure including the nature of ownership and the legal form of the organisation. “It is to understand its ownership, whether it is incorporated, a partnership, a sole proprietorship or another type such as a non-profit, an association or a charity. The disclosure shall include:</p> <p>(a) the organization’s legal form;</p>	2 comments (SRT)	<b>Pending</b>	<p>a) disclosure on shareholder structure - this is not in ESRS and according to the building block should not be included; see no linkage to sustainability reporting</p> <p>b) on "un-" incorporated entities see above why this is not added</p> <p>c) on gender diversity → discuss in SRT</p>	Discuss and agree in SRT



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	evaluation of the Directive is even not interested in the situation of SMEs.	(b) a description of the ownership structure; (c) a description of roles and responsibilities of its manager(s).				
<b>Environment</b>						
52	<p><b>Energy and carbon emissions</b> Rename title from “energy and carbon emissions (CO2 equivalents)” to “energy and GHG emissions” or delete the para.</p> <p>In case it is nevertheless decided to keep the paragraph, it must be reformulated. The "term" whether is inappropriate (requires a yes/no answer), it is not about increasing energy consumption (!) even if its from renewables (efficiency first!), the term non-fossil is inappropriate and should be replaced by renewables.</p>	<p>Title: Energy and greenhouse gas emissions.</p> <p>52. The SME shall disclose its impacts on the environment through energy usage and <del>carbon greenhouse gas emissions and whether it improves energy efficiency, increases the fraction of non-fossil energy consumption and decreases its carbon emissions.</del></p>	1 comment (SRT)	<b>Pending</b>	<p>Less simple compared to Cluster8 proposal. But correct and aligned with ESRS.</p> <p>Changing carbon to GHG is fine, carbon is a bit limiting. Finding global warming data (GHG equivalents) is not difficult – we can even include guidance on this in the Standard.</p> <p>Note: During workshop with EBF, Secretariat was informed that conversion to GHG equivalents is an issue for SMEs until public tools are made available to address this.</p>	Discuss and agree in SRT
54	<b>Energy and carbon emissions (CO2.eq)</b>	<b>SRT 1<sup>st</sup> comment:</b>	2	<b>Pending</b>	On SRT 1st comment: There are ways to calculate your Scope 1 and Scope2 Co2	Discuss and



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	54. The changes in total energy consumption expressed in MWh referred to the previous reporting period; (a) scope 1 and scope 2 GHG emissions, reported in tons of CO2 equivalent (tCO2-eq),; and (b) the changes in scope 1 and scope 2 emissions compared with the previous reporting period.	Shall or may? On scope 1 and 2, some companies may find it difficult. Add "estimated" CO2. Paragraph 54 requires scope 1 and 2 emissions to be declared. good that scope 3 is not also requested. getting a picture of scope 1 and 2 is still quite complicated and costly. You could solve this with software and estimates (self-declaration). There is no mention of how exactly and according to which calculation method, etc. good to have tools and guidance on it. It would be good if each SME could report according to how the energy consumption appears on the energy bill of their country. Only acceptable if free tools are made available for SMES.  <b>SRT 2<sup>nd</sup> comment</b> asks for more strict wording of CO2 and reference to ESRS Ars and suggest to include a reference to set 1. Scope 3 should be included as a voluntary disclosure.			emissions (we can add examples to simplify reporting).  On SRT 2nd comment: VSME is stand alone document and it is against methodology agreed at SR TEG to make references to ESRS (also to limit complexity and ensure proportionality)	agree in SRT
60	<b>Separate disclosure requirement for water</b>	New DR: "60. The SME shall disclose its total water	1 comment (SRT)	<b>Pending</b>	Secretariat proposal:	Discuss and





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	For consistency with Set 1 and the importance of water as a disclosure topic, water consumption should be moved to a new separate disclosure requirement.	<p>use in m<sup>3</sup>, disaggregated by the amount of water use at sites located in areas of high water stress.</p> <p>Areas of high water-stress are regions where the percentage of total water withdrawn is high (40-80%) or extremely high (greater than 80%) in the Aqueduct Water Risk Atlas tool of the World Resources Institute (WRI)."</p>			"(c) water consumption or water use in cubic meters, disaggregated by the amount of water consumed or used at sites located in areas of high water stress;". Linke to be included to existitng maps.	agree in SRT
<b>Social</b>						
<b>63</b>	<b>Delete gender breakdown for the subcategories of employees</b> (in Workforce characteristics)		1 comment (SRT)	<b>Pending</b>	<p>Secretariat’s proposal to reduce the level of granularity of gender breakdown by subcategories:</p> <p>63. The undertaking shall disclose include in full-time equivalents or head count:</p> <p>(a) the number of employees <b>and breakdown by gender</b> ;</p> <p>(b) the number of temporary and permanent employees;</p> <p><del>(c) the breakdowns by gender.</del></p>	Discuss and agree in SRT



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					<p>Secretariat’s proposal is to keep the breakdown as gender breakdown is not an EU Data point but it is a very common standard practice (GRI, SASB). In addition, in some member states, this is information already disclosed in the financial statements notes. Such information on gender breakdown is pivotal to understand other social metrics where gender plays a role within this module of VSME or others.</p> <p>Also to be noted that this is data in banks request (SFDR/Benchmark)</p>	
63	<p><b>"Per region" should be skipped as it not relevant and has no added value (what is a region?). Is probbably copy from standard for large companies with different subsidiaries / offices.</b></p>	<p>63. The undertaking shall disclose <del>include</del> in full-time equivalents or head count:            (a) <del>the</del> number of employees <del>by region</del>;            (b) the number of temporary and permanent employees;            (c) the breakdowns by gender.</p>	1	<b>Content</b>	<p>probably region is not that relevant for micro, what about medium sized undertakings? To include a Definition for Region/Country (using the one from SET 1, AR 54 DA July23).</p> <p>In LSMEs the disclosure requires a breakdown by country for countries in which the undertaking has 50 or more employees representaing at least 10% of its total</p>	Discuss and agree in SRT



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					number of employees:: do we want to set a threshold also for VSMEs, thinking about medium?	
65	<p><b>Health and safety</b> Delete “and similar”</p> <p>65. The disclosure shall include: (a) working days lost due to different reasons (absenteeism, illness, <b>and similar</b>); and (b) work-related injuries occurred (including the “in itinerary” accidents also known as commuting accidents).</p>	Request to delete the word “similar”, unclear language.	3 comments (SRT)	<b>Accepted and revised</b>	<p><i>Secretariat comment: use more precise language, rewording from LSME ESRS par. 36. The disclosure required shall include the following information, where applicable in the undertaking’s own workforce:</i></p> <p>(a) the number of fatalities<sup>3</sup> as a result of work-related injuries and work-related ill health;</p> <p>(b) the number and rate<sup>4</sup> of recordable work-related accidents.</p>	Discuss and agree in SRT

<sup>3</sup> This information supports the information needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator “Weighted average ratio of accidents, injuries, fatalities” in section 1 and 2 of Annex 2.

<sup>4</sup> This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #2 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (“Rate of accidents”) and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator “Weighted average ratio of accidents, injuries, fatalities” in section 1 and 2 of Annex 2.



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					<p>A separate discussion could be held on the relevance of the following SFDR PAI and its applicability within the context of the VSME in addition to the (a) and (b) datapoints above:</p> <p>(c) with regard to the undertaking’s employees, the number of days lost to work-related injuries and fatalities from work-related accidents, work-related ill health and fatalities from ill health<sup>5</sup>.</p>	
67	<p><b>Adequate wage should be added</b></p> <p>Should be included but with explanation/ reference to the Minimum Wage</p>		1 comment (SRT)	<b>Pending</b>	<p>Secretariat proposes a further discussion on this and acknowledges the changes made on the S1 Application requirements for the methodology of Adequate wage (refer to the hierarchy detailed in AR 73: The adequate wage benchmark used for comparison with the lowest wage shall not be lower than:</p> <p>(a) in the EEA: the minimum wage set in accordance with Directive (EU) 2022/2041 of the European Parliament and of the</p>	Discuss and agree in SRT

<sup>5</sup> This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #3 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (“Number of days lost to injuries, accidents, fatalities or illness”).



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					<p>Council110 on adequate minimum wages in the European Union. In the period until Directive (EU) 2022/2041 enters into application, where there is no applicable minimum wage determined by legislation or collective bargaining in an EEA country, the undertaking shall use an adequate wage benchmark that is either not lower than the minimum wage in a neighboring country with a similar socio-economic status or not lower than a commonly-referenced international norm such as 60% of the country's median wage and 50% of the gross average wage.</p> <p>(b) outside of the EEA:</p> <p>i. the wage level established in any existing international, national or sub-national legislation, official norms or collective agreements, based on an assessment of a wage level needed for a decent standard of living;</p> <p>ii. if none of the instruments identified in (i) exist, any national or sub-national minimum wage established by legislation or collective bargaining; or</p>	



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					<p>iii. if none of the instruments identified in (i) or (ii) exist, any benchmark that meets the criteria set out by the Sustainable Trade Initiative (IDH) ('Roadmap on Living Wages - A Platform to Secure Living Wages in Supply Chains'), including applicable benchmarks aligned with the Anker methodology, or provided by the Wage Indicator Foundation or Fair Wage Network, provided the primacy of collective bargaining for the establishment of terms and conditions of employment is ensured.</p> <p>A definition of Adequate wage from ESRS S1 (Appendix VI) will be inserted to guide preparers "A wage that provides for the satisfaction of the needs of the worker and his / her family in the light of national economic and social conditions".</p>	
	<b>Placements for trainees (apprentices) should be added</b>		2 comments (SRT)	<b>Pending</b>	<p>This comes from Cluster 8.</p> <p>Secretariat's view: whilst the substance of this disclosure could be relevant for VSME users, we note that this DR is an exception to the methodology followed in the VSME</p>	Discuss and agree in SRT



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					standard whereby the DRs or datapoints emanate from the set 1 standard and, consequently LSME, in its reduced version.  Therefore, the question remains as to whether an exception should be made for this social indicator and the rationale for such decision.	
	<b>Collective bargaining should be added</b>		1 comment (SRB)	<b>Pending</b>	Secretariat recommendation is to include this and simplify by adding a definition in accordance to the CSRD Art 29b.  It is also included in UN Declaration of Human Rights and ILO.	Discuss and agree in SRT
<b>Business Conduct</b>						
<b>68</b>	<b>Incidents of corruption and bribery</b> Give implementation resources to the SMEs on this		1 comment (SRT)	<b>Pending</b>	Agreed, it is more difficult with less people and possibly less automated controls, but even separation of duties could be important in this regard or any steps from the employer to avoid this.  Would it be sufficient to provide examples?	Discuss and agree in SRT



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					Secretariat expresses a concern that this would lead to copying and pasting and no real data add.)	
69	<p><b>Number of convictions</b>            Delete – It is not acceptable that one should be obliged to publish its convictions, some of them are not even mentioned on someones criminal record.</p>		1 comment (SRT)	<b>Pending</b>	<p>These are SFDR indicators, but we would propose using the wording in par 24 of G1 of the adopted DA to avoid additional burden for SMEs.</p> <p>We have a concern that at least in some industries or countries this may be important to banks and then they will request this information from SMEs whether it is in the VSME standard or not.</p> <p><i>"The undertaking shall disclose: (a) the number of convictions and the amount of fines for violation of anti-corruption and antibribery laws ; and (b) any actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery."</i></p>	Discuss and agree in SRT





## Additional topic to discussed as emerged from SRB survey

- On Building blocks (from SRB survey), a large majority (82 percent) express support. To note two different proposals: 1<sup>st</sup> proposal to give more relevance to the EU module and change the steps to the following:
  - VSME 1st step : metrics data-set (core-entry level)
  - VSME 2nd step: step1 + EU SF datapoints optional
  - VSME 3rd step: step 2 + narrative information & PTA
- Another proposal questioned step 3 and 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.
- The Secretariat suggests that the current modular approach offers tools from entry level to the EU SF module adapted for small undertakings. The EU module offers a fit with banks and financial market participants’ requests and small undertakings can choose to use it, if needed.

## Comments for which the EFRAG Secretariat informs the SR TEG about its proposed approach (8 points addressed)

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Para.	Comment	Proposed new draft	# of comments	Classification	Secretariat response	Action
1	<p><b>Scope of VSME</b> Request to expand scope of VSME to include undertakings outside the Accounting Directive such as those undertakings without company statute.</p>		1 comment (SRT)	<b>Accepted</b>	<p>The Accounting Directive now has other (higher) size criteria in € than Directive 2002/361. So, the proposal does not work: We need to refer to the Accounting Directive to be consistent with LSME and full ESRS criteria <i>and</i> we also need to enclose undertakings that do not fall under the Accounting Directive because they are not incorporated under a legal form in member states that fall under Annex I of the Accounting Directive (for Germany: Einzelunternehmer, OHG oder KG (to a certain extent)).</p> <p>New proposal: "This [draft] Standard defines sustainability reporting requirements for any undertaking that chooses to prepare voluntary sustainability statements. An undertaking is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity (for info: this sentence is</p>	Inform SRT



Para.	Comment	Proposed new draft	# of comments	Classification	Secretariat response	Action
					from 2003/361). This [draft] Standard is not applicable for undertakings that are small- or medium-size undertakings whose securities are admitted to trading on a regulated market in the European Union, or large undertakings all within the meaning of Article 3 of Directive 2013/34/EU."	
18	<p><b>Materiality versus mandatory</b></p> <p>The approach to materiality is unclear: are all metrical DRs subject materiality or mandatory requirements?</p> <p>Use of "if applicable" makes this difficult.</p>		2 comments (SRT)	<b>Accepted</b>	Secretariat will add for each metric, a clarification on whether a qualitative metric is "if applicable" or if it is a quantitative, the undertaking will report if the number is zero.	Inform SRT
7	<p><b>Include more positive reporting on impacts</b></p>		2 comments (SRT)	<b>It already exists</b>	We have a voluntary disclosure on opportunities. It could also be argued that avoiding a risk is an opportunity (see also definition of risk and opportunities in Defined Terms "... negatively / positively affect the undertaking's financial position ...)	Inform SRT



Para.	Comment	Proposed new draft	# of comments	Classification	Secretariat response	Action
8	<b>Delete entity specific disclosure</b> This is too complex and should be deleted or simplified.		5 comments (SRT)	<b>Not accepted</b>	This was already discussed in SRT 13 July, so we refer to that previous SRT decision.	Inform SRT
10	<b>VSME Step 1, Metrics only</b> Request to allow all/small undertakings to reduce scope of reporting to VSME Step 1.		1 comment (SRT)	<b>Not accepted</b>	Secretariat fears that this might leave the VSME standard meaningless, at least if this is an option for all SME. For micro and small it could be considered. Also, a phase in for small (e.g. in the first two years of reporting small may also report metrics only)	Inform SRT
11	<b>Medium undertakings not to report on LSME ESRS.</b>		14 comments (4 from SRT 10 from SRB)	<b>Accepted</b>	Delete the recommendation to report based on LSME. This is because: LSME ESRS are a separate standard from the VSME ESRS and is reported only on individual level.  It will be detailed that expected target for micro is Step 1 and that small and medium have a target either for step 2 or 3 depending on their ambitions and requests of the counterparties.	Inform SRT and include in BfC
34	<b>Report EU datapoints as a block</b>	<del>The information shall be: (a) reported alongside the most related Disclosure Requirements of this [draft] Standard; and</del>	1 comment (SRT)	<b>Accepted</b>	To ease the application 34 (a) redraft to:  “The additional information shall be (a) reported alongside the most related Disclosure Requirements and if applicable,	Inform SRT

Para.	Comment	Proposed new draft	# of comments	Classification	Secretariat response	Action
		<del>(b) reflect the qualitative characteristics of information (paragraph 13).</del>			may in the case of information related to paragraph 33 (c) of this draft standard (Secretariat these are EU datapoints) also be reported as a block; and (b) ..."	
47	<b>Material sustainability matters</b>	47. The SME shall disclose its material sustainability matters <del>(as defined in Appendix B "List of sustainability matters")</del> resulting from its materiality assessment (see chapter 3.3 Impact materiality and 3.4 Financial materiality). The disclosure shall include the following: <del>(a) the SME's material sustainability matters, including</del> a brief description of <b>each material sustainability matter with regards to, as applicable, them and how they affect:</b> <b>(a) the impacts of the SME on</b> people or the environment; and <b>(b) the effects on the SME's activities, strategy and decision-making, including, if applicable,</b> the current and anticipated effects of material sustainability matters on present or future revenues or equity and, if applicable, the effects on its strategy and decision-making.	4 comments (SRT)	<b>Accepted</b>	Amend as proposed (but change to "... (see chapters 3.2 - 3.5)" and instead of "revenues" use "profits" as suggested by another SR TEG member.	Inform SRT



## GENERAL REQUIREMENTS

Category of comments	# of comments
Editorial	48
Content	58
<b>Total</b>	<b>106</b>

### *Scope and complexity*

- One comment mentioned the need for a wider scope to include those SMEs that have no company statute, since Art 3 Directive 2013/34/EU of the accounting directive is limited to undertakings with a company statute. VSME ESRS should and will also be used by undertakings (i.e. those who are self-employed) without company statute (as banks will also ask from them reports, as well as clients, public authorities. C8 took this into account. See also the Ramboll study from DG FISMA according to which only about 9 mio SMEs are incorporated. This comment has to be clarified with the author.
- Another TEG member pointed out the possibility to reduce the value chain information to only include supply chain information (i.e. upstream only) to reduce complexity of the standard. (in table 2 below, inform SR TEG).
- Consider including new paragraph: “The SME can only state that it has complied with the Standard when it has complied with all the requirements of the Standard. The SME can exempt itself from a requirement when its application would cause undue cost or effort and still claim compliance. If such as exemption is used, then the SME must give reasons.” (in table 1 below, to discuss at SR TEG)



- Para 8 questioned by 4 TEG members (entity-specific disclosure): “8. The SME shall integrate its disclosure resulting from the application of this standard with additional information on a material matter not covered or not sufficiently covered by this standard, when such integration supports a better understanding of its sustainability-related impacts and risks.” (in table 2 below, to inform SR TEG)

#### *Proportionality*

- One comment pointed out that the VSME should not follow the approach of simplifying the ESRS for large undertakings but rather apply the “Think Small First”. A red flag was outlined that mentioned that not only Micro undertakings, but all non-listed undertakings should be able to limit their reporting requirements to the minimum dataset considering that this is a voluntary standard. This comment was supported by 2 TEG members. (see table 1 below, to discuss at SR TEG)

**EFRAG Secretariat initial observation:** the VSME ESRS should clarify that Step 1 is the ‘target’ approach for micro-undertaking and the other 2 modules are ‘target’ approach for small and medium, depending on their complexity, status of development of sustainability practices and requests that they receive from lenders/investors/counterparties in the value chain.

#### *Double materiality*

- One comment mentioned that the principle of double materiality is too complex for SMEs to report on and must be adapted to SMEs. Furthermore, 4 TEG members argued that the principle of double materiality should be further explained.
- It is suggested that “*potential*” impact materiality could be deleted for greater simplification (i.e. only actual impacts to be reported)
- The characteristics (scale, scope and irremediable character) that can make impacts severe should be included in the DR – since ARs are missing from the VSME ESRS.

#### *Optional disclosures*

- One comment highlighted that publication of opportunities without clear actions should not be banned. The comment also raised the concern that overall reporting should be more “positive” not only focussing on “risks” and “negative impacts”.



## GENERAL DISCLOSURES

Category of comments	# of comments
Editorial	19
Content	27
<b>Total</b>	<b>46</b>

### *Basis for Preparation*

- One comment from SMEs United outlined that more basic information about the undertaking should be requested of the undertakings.
- 3 comments addressed estimation uncertainty suggesting not to have a DR on it. 1 comment mentioned that the current phrasing only includes uncertainty in terms of metrics and disregards forward-looking information. 1 argued the DR should be restated in a more positive manner, asking undertakings to disclose transparency and good governance. The last comment mentioned that this DR is irrelevant.
- RED FLAG. The EU Law module is too complex for SMEs and should be removed since it is not part of the due diligence process and was not part of the PTF preparatory work.
- Reintroduction of reporting errors in prior periods.

**EFRAG Secretariat initial observations:** the EU content of the module appears often in the banking questionnaires that the EFRAG Secretariat has seen. As the main benefit and motivation to adopt VSME by an undertaking is the fact that it helps to face a commonly accepted data set, the inclusion of the EU module appears instrumental for the success of VSME. It stays anyway optional as SMEs would always have the possibility to adopt the other modules.

### *Governance*

To be discussed in TEG:

- 2 comments proposed to delete gender ratio of the governance body.





### *Strategy*

- 3 comments noted that underwriting of ethical codes of conduct is unclear and should be deleted.
- 2 comments stated that description of value chain is sensitive and competitive information that should be kept secret.
- One mentioned that value chain reporting should only be upstream.

### *Management of material matters*

- One comment argued materiality is an expensive and complex issue for SMEs to include in a voluntary report.
- 4 comments expressed that the approach to disclose material information is unclear and should be more explicitly described. The main concern was whether all metrics need to be disclosed regardless of materiality assessment or not. To note: many of the mandatory metrics DR have a “if applicable”.
- On policies and actions to address material matters, 3 comments mentioned the requirement should be simplified.
- One comment pointed out that disclosure requirement 7 may result in policies, actions and targets not being adopted to avoid disclosure.
- Regarding targets, one comment asked to add “target year value and unit, and base year value” to disclosure requirement 7.



## ENVIRONMENT

Category of comments	# of comments
Editorial	17
Content	16
<b>Total</b>	<b>33</b>

### *Energy and carbon emissions*

- One comment pointed out that the disclosure requirement 8 on energy and carbon emissions is technically incorrect and leads to overlaps since electricity can also come from fossil sources, thus the respondent suggested to reformulate the requirement in alignment with EMAS core indicator for energy.
- On Scope 1 and 2 emissions, 2 comments suggested to add an explanation of what Scope 1 and Scope 2 emissions entails for simplification purposes. Furthermore, it was suggested to provide guidance and tools for the calculation method.

### *Pollution of air, water and soil*

- Two comments asserted that a standard metric with a unit of measure or methodology to quantify pollution should be provided for these disclosures.

### *Biodiversity*

- On the topic of biodiversity sensitive areas, 2 comments pointed out that this is not relevant for all industries and that measuring and assessing biodiversity is a difficult exercise. It was suggested to add a list that describes biodiversity sensitive areas, for simplification purposes.
- 3 comments requested definitions of sealed and nature-oriented areas to be added in the Appendix.
- *Resource use, circular economy, water consumption and waste management*  
One comment requested a clarification of circular economy principles.



- Information on recycled material should only be asked of producing undertakings, and not from retailers.
- Additional information is requested regarding amount of recycled water since it has large implications for the water consumption. This was also contradicted by another comment which did not see the reason for asking for recycled materials.



**SOCIAL**

Category of comments	# of comments
Editorial	3
Content	16
<b>Total</b>	<b>19</b>

*DR 12 General workforce characteristics*

- One comment wanted to delete breakdown by region.

To be clarified with author:

- One comment stated that a breakdown by gender in paragraph 63 should be deleted. [This is not an EU datapoint but it is a very common standard practice that can be found in GRI and SASB, and it is an easy calculation.]

*DR 13 Health and safety*

- 3 comments stated that the use of the term “similar” (in absenteeism, illness, and *similar*) is inappropriate and needs to be specified.

*DR 14 Remuneration, work-life balance and opportunities for development*

Workforce	Adequate wage	Placements issued for trainee (apprentices) From Cluster 8	Collective bargaining
<b>IN FAVOUR</b>	2	3	2
<b>NOT IN FAVOUR</b>	4	3	3





## BUSINESS CONDUCT

Category of comments	# of comments
Editorial	4
Content	2
<b>Total</b>	<b>6</b>

### *Responsible Business Practices*

- The Secretariat should provide examples of which type of information should be provided under this DR, is the emphasis on the explaining the procedure or disclosing the number of incidents? Clarification is sought.
- A red flag was given provided in regards to disclosing number of convictions, since this is not publicly available information.

## TRANSITIONAL PROVISION

Category of comments	# of comments
Editorial	0
Content	1
<b>Total</b>	<b>1</b>

## Additional comments/further considerations

### *General comments:*

- Text should become more personalized and simplified to appeal directly to the entrepreneur and make the VSME ESRS simple to understand and comply. Comment received from 9 TEG members.



- Appendix B (list of matters) needs to be streamlined. At least, examples in third column on biodiversity should be removed and social topics should not be presented by stakeholder to avoid repetitions.
- All introductory sentences to the DRs in this draft VSME ESRS should be deleted.
- Nowhere in the draft is the standard reporting period mentioned. This needs to be included since the billing period can be different from the reporting period.
- The appendix A needs to be revised, the Defined term “Actions” is stated to be “Actions refer to i) actions...”
- The VSME ESRS need to be complemented by a reporting template for SMEs, with guidance and examples of fully completed templates. The VSME should be designed to help those SMEs that are motivated to voluntarily report and to serve as a sustainability performance management tool.
- Trickle-down effect: As outlined by Article 29b(4) Accounting Directive as amended by the CSRD there is no legal problem to consider the VSME as “the reporting standard for SMEs”. It should be clearly stated in the VSME that larger companies under the ESRSs cannot request information on disclosures from SMEs that go further than the VSME.
- Use “undertaking” instead of “SMEs” in the text as this is plain language, also in spoken language.



