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VSME v3 ED 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 v3 ED - Agenda paper 02-02) planned on 8 November 2023.

VSME overview of changes after SR TEG decisions

2. 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.
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 02-02.

<p>Simplified Language on Cross-cutting requirements</p>	<ul style="list-style-type: none"> - Further simplify the language of the VSME v3 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. o Simplify the first sentence of par 6 into <i>“This standard (...) provide relevant information on:”</i>
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	<ul style="list-style-type: none"> ○ 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 romanians). ○ 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”. - On Disclosure N 5 (par 58 b), SRT agreed to keep the gender diversity ratio.
Environment	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - On Disclosure B 11, SRT agreed to keep the number of convictions and fines (par 36).

Additional topics from outreaches- Value chain sensitive datapoints in VSME

4. During the outreaches on VSME the question emerged on how to deal with potential data request that large undertaking (applying set1 ESRS) may address to SMEs in their value chain for the purpose of reporting on the DRs in set1 ESRS that have a value chain dimension. Hence for SMEs that are not in the scope of LSME (not listed SMEs) it may be important to be able to fulfill this potential data request via VSME.
5. EFRAG secretariat has analyzed the issue in the Issue Paper in Annex (agenda paper 02-04)
6. EFRAG secretariat welcomes preliminary feedback from SR TEG.

VSME Outreaches overview

7. A series of workshop have been held and will be held by EFRAG secretariat to answer the question of whether VSME and SF/Business Partner module can replace existing questionnaires that SMEs receive from counterparts (lenders or large undertakings) to collect ESG data.
 - a. On the 5th of October EFRAG Secretariat held a workshop with CSR Europe and on 12 October one with Business Europe (in both participants were large companies or national associations)
 - b. The key takeaways are:
 - i. General support for both the Basic Module and Narrative-PAT Module (suggestions discussed).



- ii. Concerning the SF Module, the majority of responding 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.
- iii. 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. In particular, specific sector integrations may be needed. EFRAG Secretariat expects more input in the coming few weeks from corporates on this point and understands 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.

8. Workshop with banks on 1st September and follow-up on 23 September:
 - a. Language simplification implemented
 - b. SF datapoints: will be tested in details in second workshop. During the first workshop support was expressed as *"these datapoints are necessary for the financial sector to fulfil its role of financing a more sustainable economy. (...) => "recommendation to EFRAG to provide the reasons why it might be interesting for companies to follow this approach"* [implemented in draft and to elaborate further in basis for conclusions].
9. Further outreach meetings are scheduled as follows:
 1. 20 October 2023 with SME United
 2. 23 October 2023 with Banks
 3. 27 October EWG meeting.

VSME topics for discussion in SR TEG

10. 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 02-02. 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 or deletion (Basic Module no materiality).
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.
Adequate wages: public consultation or specific PAT requirement (discuss)	As explained in the Agenda paper 02-06, EFRAG Secretariat proposes 2 options: Option 1: submit the (current) datapoint (the ratio of the entry level wage to the minimum wage, at significant locations of operation) to public consultation; Option 2: addressing adequate wages as part of Module 2 through a specific PAT requirement (“where adequate wages is a material matter, the undertaking shall disclose its policies, actions and target to manage the negative impacts and address the financial risks”)
Additional datapoint on placements for Apprentices in Workforce – Remuneration, collective bargaining and training (discuss)	Following TEG discussion and inputs, as explained in paper 02-05, Secretariat suggestion is to add a datapoint on apprentices.
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
Guidance on Social Metrics (discuss)	Secretariat prepared guidance for calculation and presentation on Social metrics



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 02-02– [Draft] VSME ESRS v3 ED:

1. Please provide your view on the simplified text of VSME ESRS v3 ED.
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. Which option does EFRAG SR TEG prefer enforcing on the adequate wages (see paper 02-06)?
6. Does EFRAG SR TEG agree with the adoption of the additional datapoint on apprentices (see paper 02-05)?
7. Please provide your view on the definitions of scale, scope and irremediable character of impact (remove examples?).
8. Does EFRAG SR TEG consider that the Guidance on Environmental and Social Metrics is sufficiently clear?
9. 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 (connected also to Issue Paper 02-04)? Is there any SFDR datapoint that should be added?
10. Does EFRAG SR TEG consider that Appendix A - Defined Terms, should also include guidance? (see for example Policy definition)
11. Does EFRAG SR TEG agree to include in the SF/Business Partner module the missing value chain datapoints (as described in Agenda Paper 02-04 - Issue Paper- Proposal for additional Datapoints in Sustainable Finance/Business Partner Module related to value chain)? Do you agree that an additional question is included in the consultation on VSME ED (when approved) regarding those value chain cap datapoints?

Agenda Papers

11. In addition to this cover note, agenda papers for this session are:
 - a. Agenda paper 02-02 – [Draft] VSME ESRS v3 ED;
 - b. Agenda paper 02-03 – [Draft] VSME ESRS v3 ED- markup from the version used in the internal survey on 24 July 2023;
 - c. Agenda paper 02-04 – Issue Paper – Proposal for additional Datapoints in Sustainable Finance/Business Partner module related to value chain
 - d. Agenda paper 02-05 –Issues paper Placement for apprentices



- e. Agenda paper 02-06 – Issues paper Entry level wages
- f. Agenda paper 02-07 – Comment log VSME V1.1 SR TEG and SRB feedback

